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AGENCY FOR INTERNATIONAL DEVELOPMENT

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PROJECT PAPER

ASEAN: Private Investment and Trade
Opportunities (399-0358)

August 28, 1989

UNCLASSIFIED

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
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Amendment Number

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2. COUNTRY/ENTITY

ASEAN

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Asia and Near East

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5. PROJECT TITLE (maximum 40 characters)

Private Investment and Trade Opportunities

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY

09 10 95

7. ESTIMATED DATE OF OBLIGATION

(Under 'B' below, enter 1, 2, 3, or 4)

A. Initial FY 89

B. Quarter 4

C. Final FY 93

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY 89			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(2000)	()	(2000)	(13000)	()	(13000)
(Loan)	()	()	()	()	()	()
Other U.S.						
1.						
2.						
Host Country		200	200		3250	3250
Other Donor(s)						
TOTALS	2000	200	2200	13000	3250	16250

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1)	ARDN	S140	840			750		2000	
(2)	SDA	S730	840			1250		11000	
(3)									
(4)									
TOTALS						2000		13000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

840 830 870 819

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code BL BF TECH
 B. Amount 1000 1000 2500

13. PROJECT PURPOSE (maximum 480 characters)

To establish a mechanism to promote expanded private sector trade and investment between ASEAN and the U.S.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
 1 0 9 1 1 1 9 4

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)

Concur in Methods of Implementation and Financing proposed herein.

Douglas S. Franklin
 Douglas S. Franklin, Controller

17. APPROVED BY

Signature *Lawrence J. Ervin*
 Title AID Representative to ASEAN

Date Signed MM DD YY
 06 15 89

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

PROJECT PAPER
ASEAN
PRIVATE INVESTMENT AND TRADE OPPORTUNITIES
(399-0358)

JUNE 1989

ASEAN - PRIVATE INVESTMENT AND TRADE OPPORTUNITIES

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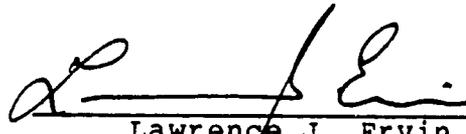
PROJECT AUTHORIZATION

ASEAN

PRIVATE INVESTMENT &
TRADE OPPORTUNITIES
PROJECT NO. 399-0358

1. Pursuant to Sections 103 and 106 of the Foreign Assistance Act, as amended, I hereby authorize the ASEAN Private Investment and Trade Opportunities Project (the "Project") on behalf of the Association of South East Asian Nations (ASEAN) countries of Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand, involving planned obligations of not to exceed \$13,000,000 in grant funds over a six year period from the date of authorization, subject to the availability of funds in accordance with A.I.D. OYB/allotment process, to help finance foreign exchange and local currency costs for the Project. The planned life of the Project is seven years from the date of initial obligation.
2. The Project will promote certain economic growth and development in the ASEAN region and provide assistance in establishing a mechanism promoting expanded private sector trade and investment between ASEAN and the U.S. The system will serve to establish networks to facilitate expanded market driven economic activities in ASEAN countries and productive and mutually beneficial ASEAN and U.S. trade and investment activities.
3. The Project Agreement(s), which may be negotiated and executed by the Officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and conditions as A.I.D. may deem appropriate.

Source and Origin of Goods and Services. Goods and services, except for ocean shipping, financed by A.I.D. under the Project, shall have their source and origin in the United States or the ASEAN countries (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand) except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.



Lawrence J. Ervin
AID Representative to ASEAN

August 28, 1989
Date

ASEAN - PRIVATE INVESTMENT AND TRADE OPPORTUNITIES

I. PROJECT RECOMMENDATIONS AND SUMMARY

A. RECOMMENDATION

The AID/ASEAN Regional Office recommends approval and authorization of a \$13.0 million grant to be made to ASEAN for the Private Investment and Trade Opportunities (PITO) Project.

1. Grantee

The Government of the Kingdom of Thailand, the current host country for the ASEAN-U.S. Dialogue, will be the signatory of the Project Agreement on behalf of ASEAN.

2. Coordinating Mechanisms

Project coordination and management will be provided by a Project Secretariat established in Bangkok and linked by the ASEAN section of the ASEAN-U.S. Business Council (AUSBC) to trade and investment promotion representatives and activities in each of the ASEAN countries. Support and coordination of these trade and investment activities will be provided through cooperative grant agreements with: AUSBC/ASEAN; AUSBC/CTE in Washington D.C. for U.S. linkages covering trade and investment promotion; the East-West Center for policy analysis and support; Technonet-Asia in Singapore for technology commercialization issues; and a funding of technical assistance to OPIC for devising the ASEAN Growth Fund.

3. Amount and Sources

The Project will be supported by \$13 million from the Agency for International Development (AID). Support from other sources is projected to be \$3.25 million on a cash or in-kind basis from ASEAN member governments and ASEAN and U.S. private sector organizations over the six-year life of the project. The AID grant will be obligated incrementally on the following schedule:

FY'89	\$ 2.0 million
FY'90	\$ 2.5 million
FY'91	\$ 2.5 million
FY'92	\$ 3.0 million
FY'93	\$ 3.0 million

B. SUMMARY PROJECT DESCRIPTION

1. Project Rationale

The ASEAN region is one of the most economically dynamic areas of the world. Most member countries are rapidly transforming themselves into centers of industrial production. Although the regional outlook is generally optimistic, a strong need for development assistance remains. Transformation to advanced industrial nations and private sector-led growth is still in its initial stages, especially in the three poorest ASEAN nations. Numerous constraints to market-led growth remain in place and continue to emerge at each new stage of transition. Constraints include lack of information, policy impediments, and limited access to capital. The Project directly supports efforts to reduce or eliminate these constraints to sustained development.

2. Project Goal and Purpose

The Project's goal is to contribute to sustained economic growth and development in the ASEAN region. The Project's purpose is to establish a mechanism to promote expanded private sector trade and investment between ASEAN and the U.S. The system will serve to establish networks to facilitate expanded market driven economic activities in ASEAN countries and productive and mutually beneficial ASEAN and U.S. trade and investment activity.

3. Project Outputs

The following major outputs are expected over the life of the Project.

- a self-sustaining mechanism to promote ASEAN-U.S. trade and investment;
- increased two way trade flows between the United States and ASEAN nations;
- increased flows of direct investment from the United States to ASEAN nations;
- approximately 50 ventures funded under the ASEAN Growth Fund;
- diversification of ASEAN export markets with increased export flow to East Asia and an improved trade balance between ASEAN nations and the United States;

- a series of policy improvements to encourage private sector-led growth in trade and investment relationships between ASEAN and the U.S., and among ASEAN member nations.

4. Project Description, Management and Implementation

The project is divided into three private sector components, with management and technical assistance provided to each.

Component One: Trade and Investment Promotion - This component will establish a mechanism for promoting expanded trade and investment in sectors of high development priority which are of mutual benefit to ASEAN and the United States. It will include providing specialists and other assistance to overcome technical obstacles hindering trade and investment.

Component Two: Policy Analysis/Problem Resolution - This component will establish a network of existing ASEAN-based policy analysis organizations, linked to a U.S.-based policy analysis center. Cooperative efforts of the institutions in the form of analytical studies of policy issues and various options for resolution will be submitted for consideration by the Steering Committee and other fora to encourage discussion and support ASEAN-U.S. policy dialogue.

Component Three: Capital Market Development - This component provides assistance to the Overseas Private Investment Corporation (OPIC) in establishing an ASEAN Growth Fund to provide equity financing for U.S.-ASEAN ventures.

Management policy guidance and technical oversight of the Project will be provided by a Steering Committee comprised primarily of representatives of the private sector from each ASEAN country and the United States. It will be chaired by the President of the ASEAN section of the AUSBC. Additional members will be:

- six representatives of the ASEAN section of the ASEAN-U.S. Business Council representing one each from the six countries of ASEAN;
- three representatives from the U.S. section of the ASEAN-US Business Council;
- one representative each from the COTT, COIME and COFAB Committees of the ASEAN Secretariat;

- the Director General, ASEAN Division of the Ministry of Foreign Affairs of Thailand who will represent ASEAN; and
- the U.S. A.I.D. Representative to ASEAN.

The Steering Committee will meet at least once annually in conjunction with annual AUSBC meetings, and more frequently as required. Meeting locations may be rotated among ASEAN countries. The Steering Committee will approve the activities to be carried out by the Project in each succeeding year, including the detailed annual work plan and budget developed by the Project Secretariat. The Steering Committee will also review policy research studies and other Project activities and recommend appropriate actions.

The Project Secretariat will function as the Project manager. An Executive Director will be recruited and selected by the Steering Committee to direct the daily technical, management and administrative activities of the Project. Other specialists will include a Procurement Services Administrator, a Management Information Administrator and secretarial/administrative support staff.

Implementation of the Project components will be accomplished through cooperative grants to four organizations. Each may provide sub-grants to hire specialized expertise as needed to carry out project objectives. Grants will be awarded to:

- the ASEAN section of the AUSBC, funded under a grant to the Federation of Thai Industries (FTI), to manage the trade and investment promotion efforts within ASEAN. These funds will be used to support AUSBC/ASEAN efforts in carrying out ASEAN-based trade and investment promotion activities. Project funds will be used to hire local trade and investment promotion officers for the Project as necessary.
- the U.S. section of the AUSBC with its affiliated Center for Technology Exchange (CTE) to manage the trade and investment promotion activities in the United States.
- the East-West Center to manage the policy analysis/problem resolution component.
- an ASEAN-based organization, Technonet-Asia, serving as the Project's technology response center, to provide technical expertise and organize seminars and other programs on technology commercialization issues of ASEAN-wide interest.

In addition, project funds will be made available to OPIC to hire technical expertise related to establishing the ASEAN Growth Fund. All grants will be provided for a two year period initially. This will enable the Project, through the advice of its Steering Committee, to change grantees in response to prevailing requirements or grantee performance.

5. Project Funding

Project funding is described in Figure I-1 on the following page. In addition to the funding contribution provided by A.I.D., the ASEAN and U.S. private sectors will make their best efforts to provide counterpart supporting funds. The combined contribution of the private sectors might provide is shown as 25% of the A.I.D. contribution in the estimates included in Figure I-1.

6. Analyses: Summary Findings

AID/ASEAN has reviewed and discussed the PITO project in detail. The project is considered economically, administratively and technically feasible, socially sound and without negative environmental effects. The cost estimates are reasonable and the project meets all applicable statutory criteria. Responses to issues raised in the PID Approval Cable are discussed in Annex B. Detailed analyses and other information supporting the Project design are presented in Annex C through Annex K.

FIGURE I-1

PITO - SUMMARY COST ESTIMATE

PROJECT COMPONENTS	TOTAL	
	<u>AID</u>	<u>HC*</u>
Promotion Activities		
- U.S.- Based Services	2,200	1,575
- AUSBC/ASEN	2,280	450
- T&I Representatives	460	100
- Tech Svcs./Seminars	1,470	450
- Stds./QA Assistance	<u>1,300</u>	-
	7,710	
Policy Coordination		
- Policy Inst. Support	500	-
- ASEAN Policy Centers	<u>1,740</u>	225
	2,140	
Project Secretariat		
- Management	1,145	450
- ASEAN Tech Support	1,200	-
- Evaluations	415	-
- Audits	<u>90</u>	-
	2,850	
TOTAL	13,000	3,250

*Note: Estimates shown for Host Country (HC) include potential contribution that may be provided by the ASEAN and U.S. private sectors.

II. PROJECT RATIONALE

A. BACKGROUND

1. The ASEAN Economy and U.S. Support

The ASEAN "economy", an aggregation of six national economies, is emerging as one of the most dynamic regions of the world economy. Most member countries are rapidly transforming from being sources of traditional mineral and agricultural commodities to becoming major centers of industrial production. Many are shifting (or have already shifted) from inward-oriented, import substitution economic strategies toward export-led growth policy approaches. Rapid gains have been made in exports of light manufactures. While developing at considerably different paces, ASEAN nations are generally in transition to "newly industrializing country (NIC)" or "advanced developing country (ADC)" status. In addition, the collective group of countries in ASEAN possess not only the abundant labor resources largely responsible for the rapid growth achieved in East Asia (e.g., Japan, South Korea and Taiwan), but also possess considerable natural resources that are absent in the more advanced Asian economies. This creates the prospect for more diversified growth by increasing the range of options for productive economic activities.

In view of this positive outlook, one can ask why a development assistance project of this type is necessary. The basic response is the fact that the process of transformation to advanced industrial status and toward private sector-led growth is still in its initial phase. With the exception of Singapore and Brunei, the ASEAN nations remain relatively poor on an average per capita basis, and continue to possess large pockets of poverty, especially in rural areas. The region's development potential has not been fully realized.

In short, the ASEAN nations have embarked on a development path which is appropriate from the perspective of their own national self-interests, and is fully consistent with U.S. objectives in the region. But this process is far from complete. Numerous structural constraints remain in place or emerge at each new stage of activity. These constraints include a lack of information on markets and venture opportunities, policy impediments, and limited availability of capital, particularly equity capital, for investment in new ventures. These development bottlenecks can only be removed over time. The overwhelming body of experience of other countries confirms that the most successful approaches for overcoming these constraints are those which allow for and encourage private sector business activity. As stated in the AID Policy Paper on Private Enterprise Development,

"A society in which individuals have freedom of economic choice, freedom to own the means of production, freedom to compete in the market place, freedom to take economic risk for profit and freedom to receive and retain the rewards of economic decisions is a fundamental objective of the AID program in less developed countries. Such a private enterprise economy is held to be the most efficient means of achieving broad-based economic development."

2. ASEAN-U.S. Trade and Investment Developments

The status of current ASEAN-U.S. trade and investment relationships was summed up succinctly in the PITO PID:

"The U.S. is falling behind its industrial competitors in taking advantage of trade and investment opportunities in the ASEAN region. This has adverse consequences not only for the U.S., as evidenced by continuing negative trade imbalances, but also for the ASEAN economies as well in that useful American products, including advanced technologies -- equipment, systems and services -- and finance, are not meeting their potential for contributing to ASEAN growth. Furthermore, the resulting trade imbalances are creating protectionist pressures in the U.S., which could adversely affect ASEAN export growth."

Private and public sector leaders in the region expressed near unanimity in their desire for an increased U.S. private sector trade and investment presence. This desire and need was also expressed by U.S. leaders interviewed in the project design process. To be sure, a difference in emphasis emerged, with ASEAN leaders focusing on a desire for U.S. investment, and U.S. leaders concentrating on a need for greater U.S. exports. Nevertheless, both sides acknowledge that trade and investment are intimately related and should be pursued in tandem.

The ASEAN aspiration for greater U.S. private sector activity originates from at least two motives. One is the goal of increasing overall economic growth, and U.S. firms are seen as capable of contributing to that end. A second objective is economic diversification, especially since U.S. companies are generally viewed as providing greater benefits to the local economies than firms from other countries. For example, it was repeatedly pointed out in the interview conducted preparatory to the project design effort (See Annex C) that U.S. investors typically bring in more equity capital (thereby reducing local borrowing requirements and "crowding out" of local firms) and provide easier access to technology than investors from other nations, particularly from East Asia. In the area of technology, the Japanese in particular were cited as closely guarding their

process and product technologies. One can easily identify exceptions to this rule, but it represents a firm consensus among businessmen and public officials in the region.

3. Future Importance of ASEAN-U.S. Trade and Investment

a. ASEAN-U.S. Trade Relationships

The fundamental economic principle of comparative advantage establishes a strong basis for trade between the United States and ASEAN countries, with major gains from trade to be achieved by all nations involved. The foundation for these gains are differences in resource endowments and resulting comparative advantages. Collectively, ASEAN nations are rich in tropical agricultural capacity, mineral resources and low-cost labor. The United States is endowed with economic resources for producing temperate climate agricultural goods and capital and technology-intensive manufactures, as well as advanced services.

The trade flows which are generated by these resource differences are complementary and mutually beneficial. ASEAN nations export tin, natural rubber, sugar, other tropical goods, and labor-intensive goods (textiles, handbags, electronic components and other consumer goods) to the United States, which in turn sells chemicals, transportation equipment, and electrical and mechanical machinery to members of ASEAN.

The United States is the largest bilateral trading partner of Singapore and the Philippines, whereas Japan is the leading trading partner of Brunei, Indonesia, Malaysia, and Thailand. In 1970, the United States accounted for 17 percent of total ASEAN exports. This share rose to 19 percent in 1986, when the United States assumed the role previously played by Japan as the leading export market of ASEAN. The share of U.S. exports in ASEAN's total imports increased from 15 percent in 1970 to 17 percent in 1986.

Viewed from the U.S. perspective, ASEAN represented a market share for U.S. exports of three percent in 1970 and four percent in 1986. Similarly, ASEAN accounted for three percent of total U.S. imports in 1970 and four percent in 1986. This difference in relative importance is because of the large size of the U.S. economy vis a vis that of ASEAN. The combined ASEAN GDP is only about five percent of that of the United States. While the United States is more important to members of ASEAN than vice versa, the ASEAN region is currently and prospectively very important to the United States, especially as the United States seeks to correct its structural trade deficit.

b. ASEAN-U.S. Investment Relationships

Unlike trade, in which flows of goods and services move in both directions, investment flows have by-and-large moved only from the United States to ASEAN member countries. U.S. companies have provided capital, technology, management skills and marketing capabilities to their affiliates in ASEAN, and in return have achieved generally profitable returns. U.S. investment in the region has long been an important component in bilateral business relationships, but its relative importance has been declining recently. As shown below, U.S. direct investment in the region has grown considerably over the past two decades, although from a very low base. However, total U.S. investment of some \$10 billion in 1986 (and 1987) accounted for only about four percent of total U.S. foreign investment (\$260 billion in 1986).

U.S. Direct Investment Position in ASEAN (U.S. Millions)

	<u>1966</u>	<u>1977</u>	<u>1987</u>
Brunei -	0	5	-28 _{a/}
Indonesia	106	984	3,929
Malaysia	57	464	1,111
Philippines	486	837	1,211
Singapore	30	516	2,521
Thailand	51	237	1,282

a/ 1986

Source: U.S. Department of Commerce

According to official statistics, Japanese investment in ASEAN (\$14 billion) exceeds the \$10 billion recorded for U.S. direct investment, but this figure is misleading because of statistical accounting procedures. The U.S. figure is understated by nearly \$17 billion for production-sharing oil investment arrangements in Indonesia. In addition, the Japanese figure is based on investment approvals rather than on implemented projects, thereby overstating Japanese investments.

While the United States is probably the largest source of foreign direct investment in the ASEAN region, the Japanese are appropriately considered the most active investors in ASEAN. Japanese firms are active and highly visible in many sectors,

especially manufacturing, and Japanese products are most visible on store shelves. American firms tend to be concentrated in a few sectors, especially oil production and manufacturing for export. In addition, the U.S. presence is dominated by a select number of large multinational firms, whereas much larger numbers of Japanese firms are active, including small and medium enterprises (SMEs).

From a sectoral standpoint, U.S. firms engaged in the petroleum sector account for over three-fourths of total U.S. foreign investment in Indonesia, over one-half of the total in Malaysia and Thailand, and about one-fourth of the total in Singapore. Regionally, the petroleum sector represented about 55 percent of total U.S. direct investment in 1987. Manufacturing accounted for about 29 percent, the majority of which was electrical machinery and chemicals. The remaining 16 percent of U.S. investment was in trade and banking (primarily in Singapore and the Philippines) and in other financial services (Indonesia). Investments in manufacturing have grown considerably in recent years, but remain small in comparison to both Japanese investment and the region's economic potential. A fuller description of ASEAN-U.S. relations can be found in Annex C.

B. PROJECT RATIONALE

The comprehensive study of trade and investment conditions in the ASEAN member countries conducted preparatory to developing the detailed design of the PITO project identified several areas that need to be addressed in any efforts to increase the level of ASEAN-U.S. business activity. The study also identified requirements for improving economic cooperation.

The reasons cited most often by representatives of the U.S. private and public sectors in explaining the static level of ASEAN-U.S. trade and investment activity give the impression that the climate is hostile to U.S. business interests. Policy constraints and the difficulty of doing business are almost always mentioned as the reasons why U.S. private sector presence is declining in ASEAN member countries.

ASEAN businessmen and public officials, however, view the intense levels of interest and activity coming from East Asian and European traders and investors as evidence that their policies do not present major barriers to foreign firms. Many ASEAN nationals attribute the low level of U.S. business interest in ASEAN to several factors, none of which are seen as being controlled by the ASEAN countries. Most often cited are: the U.S. private sector's lack of knowledge and ignorance of ASEAN countries and particularly the opportunities available; the impatience and lack of understanding of most U.S. business persons on negotiations in most ASEAN countries; and a reduced interest in opening new markets because of the robust state of the U.S. economy.

The conceptual design for the PITO project and the subsequent detailed design process acknowledged that both perspectives contain elements of truth. In focusing on an approach to overcome these conditions and increase the level of mutually beneficial U.S. trade and investment activity in ASEAN, it became clear that three felt needs have to be addressed:

1. Increased Trade and Investment

Investors and traders in the U.S. and ASEAN private sectors frequently are frustrated in their attempts to obtain reliable information on potential partners and even basic information related to potential opportunities and markets. Ironically, there are a number of excellent sources available through USG agencies that can be valuable to both U.S. and ASEAN entrepreneurs.

In the United States, through the efforts of the Department of Commerce and other governmental and private agencies, there are numerous sources of information available to prospective traders and investors. The difficulty encountered by many first-time, overseas entrepreneurs is often one of not knowing where to go or how to obtain the desired information. It is particularly difficult to obtain reliable information on prospective foreign partners as credit rating or similar services are generally not available in other than the developed countries. There is a need, therefore, to provide the U.S. private sector with a highly visible, single point of contact for inquiries related to trade and investment opportunities in ASEAN.

Experience with trade and investment promotion activities in AID-assisted countries has demonstrated that public sector led promotion efforts have generally not been effective. Typically, investment missions to the U.S. or other target countries are led by public officials who, while effective in extolling the virtues of their country, cannot speak to specific opportunities that are of interest to private sector audiences. They are also frequently not prepared for the "hard-line" questioning regarding political stability, bribes, productivity and other issues that are of significant interest to potential trade and investment partners. Far better results have been achieved with promotion activities that rely on more direct contact between representatives of the private sectors in the two countries involved.

Prospective trade relationships are frequently abandoned because the U.S. (or EEC or Japanese) partner lacks confidence in product standards or the quality assurance practices of the supplier. Potential U.S. investors similarly are frustrated in their efforts to come to an agreement with an ASEAN partner on a reasonable value for a technology they bring to a joint-venture. Both of these conditions are serious threats to the success of

efforts to promote trade and investment in the region. Both can be addressed effectively by providing access to objective sources of expertise in these areas and through "consciousness raising" efforts such as seminars and conferences on these topics.

The extensive discussions undertaken by the design team confirmed the need to increase private sector involvement in trade and investment promotion activities in all the ASEAN countries. In response, PITO adopts an approach which creates a partnership between the private sectors in the United States and the ASEAN countries and creates an open channel of communication between these groups. PITO addresses the technical barriers to increased trade and investment by providing access to specialized assistance in these areas and sponsoring seminars and conferences on technology issues. An ASEAN-based organization, Techronet-Asia, was chosen specifically to organize and deliver these services in order to make it easy for ASEAN entrepreneurs to access them.

The experience of national government and AID programs throughout the world shows that trade and investment promotion is costly and complex, and many mistakes have been made. Therefore, to suggest that a multi-faceted promotion activity can be conducted in all ASEAN nations under the auspices of the PITO project would be inappropriate. In addition, such an effort would be redundant, since most countries in the region have active promotion agencies.

Instead, PITO is designed to fill a "niche" that meets specific needs in the region. Through the trade and investment promotion component it addresses a need that was expressed by virtually all those interviewed during project design for a clearinghouse to provide current and reliable information about trade and investment opportunities:

2. A Supportive Policy Environment

As described in detail in Annex E, which supplements the Technical Analysis, the ASEAN region has embarked on a period of considerable growth and development, but sustained progress still faces major constraints in the form of policy impediments to private sector-led commercial activities. A need clearly identified by the PITO design team is reinforcement of policy reform initiatives recently made or under consideration. Annex D discusses policy constraints as well as potential sectors of trade and investment emphasis that emerged from a recent study by the AUSBC.

The primary purpose of the policy analysis component is to generate useful information and analysis on common problems, and to present recommendations for removing constraints. A secondary purpose is to build up the institutional capacity of the organizations involved and to pursue working level cooperation. In many instances, the research institutes include a small number

of highly qualified professionals, who tend to be over committed. Therefore, concerted efforts will be made to bring additional personnel on research studies, led by their respective senior staffs, thereby expanding the breadth of analytical capability in each institute.

3. Enhanced Capital Market Development

Throughout ASEAN, the level and pace of development of "real" economies far outpace those of their respective financial sectors. For the most part, trade and investment activities among ASEAN entrepreneurs are financed by individual families or by small groups of private investors. As a result, recourse to various forms of "arms length" financing from formal markets has not grown sufficiently to meet the needs of entrepreneurs who do not have access to capital or collateral. This problem is particularly acute for smaller scale firms, including those seeking joint ventures with similarly small U.S. firms.

The Project does not include sufficient funds to underwrite a financial market instrument. However, because of fortuitous timing, PITO is in a position to provide direct assistance in organizing an ASEAN Growth Fund currently being developed by OPIC. In this way, the Project is serving as a catalyst to support a needed financial instrument, and serving as a concrete form of collaboration between USG agencies seeking similar goals. The nature of the proposed assistance is described below, and the need for a growth fund is examined in the Annex G.

III. PROJECT DESCRIPTION

A. GOAL AND PURPOSE

The Project's goal is to contribute to sustained economic growth and development in the ASEAN region. The Project's purpose is to establish a mechanism to promote expanded private sector trade and investment between ASEAN and the U.S. The mechanism will serve to establish networks facilitating expanded market driven economic activities in ASEAN countries, and productive and mutually beneficial ASEAN and U.S. trade and investment activity.

This Project is the outcome of extensive analysis and preparation. A design team conducted over 135 interviews with leaders in ASEAN and U.S. private and public sector organizations, enterprises, and international donor agencies. It is important to note several unique characteristics of the Project which introduce potential problems and risks to achieving the Project's objectives. The Project design addresses these issues directly.

- The Project's activities encompass six countries which differ considerably across many parameters -- economic, social and institutional. Therefore, the Project must allow for different applications in each country, while concentrating on functional initiatives that have merit in each country.
- The regional scope of the Project includes three nations with AID missions (Indonesia, the Philippines and Thailand), each of which is operating or developing its own trade and investment project. Therefore, PITO should not duplicate those efforts, but rather complement, build upon, and actively assist the bilateral projects.
- The Project constitutes an initiative of private/public sector collaboration, led and implemented by the private sector, rather than a traditional "government-to-government" project. The experience of AID in this area is mixed. Therefore, it is crucial that the Project seek activities conducive to cooperation by governments and private businesses, as success depends on the good will and teamwork of public and private sectors in six separate countries.
- A major thrust of PITO is based on the desire to assist, encourage and enable a number of U.S. agencies to collaborate more effectively on a regional scale in promoting U.S.-ASEAN trade and investment. Such cooperation has not yet been achieved for a variety of reasons. Thus, Project initiatives must overcome problems experienced in the past and create true incentives for productive collaboration.

Each of these characteristics adds a degree of complexity to PITO and its design. The large number of groups with an interest in the Project create a situation in which the Project is expected to be "all things to all people" or at least many things to many people. Given the limited resources available for implementation, it was necessary to inject a strong sense of reality as to what can be accomplished, to establish a clear set of priorities, and to set forth a focused, relatively limited number of activities and expectations.

B. PROJECT COMPONENTS

PITO consists of three separate, but highly interrelated components. The various activities that have been determined to be essential to meeting the Project's purposes are described below. A description of Year One activities is presented in Annex K.

1. Investment and Trade Promotion

The core Project activity will establish an ASEAN-wide and U.S. network capable of providing information on investment issues

and trade opportunities to private sector firms. This network will draw upon existing sources of information and assistance, provide a focal point for inquiries from traders and investors, and offer an institutional mechanism for addressing a clearly identified need -- coordinating U.S. and ASEAN governmental programs to assist private firms.

a. Information Collection and Referral Network

The Project will establish an information collection and referral network, (see Figure III-1 on the following page) whose primary function is to refer inquiries to the appropriate USG agency or private sector association, or to a counterpart of the U.S. center in an ASEAN member country. The network is simple and straightforward. A central collection point (PITO Center) will be established in each ASEAN country and the U.S. Inquiries from investors will be received in each ASEAN nation and in the United States, either directly by the PITO Center or indirectly through local chambers of commerce, associations and government promotion agencies. Each PITO Center will have information resources (e.g., data, rules and regulations, trade directories, etc.) that might be sufficient for answering the questions posed. As importantly, the PITO center will have a firm knowledge of locally-available information (e.g., U.S.&FCS offices, promotion agencies, law and accounting firms, etc.), and will serve as a referral service.

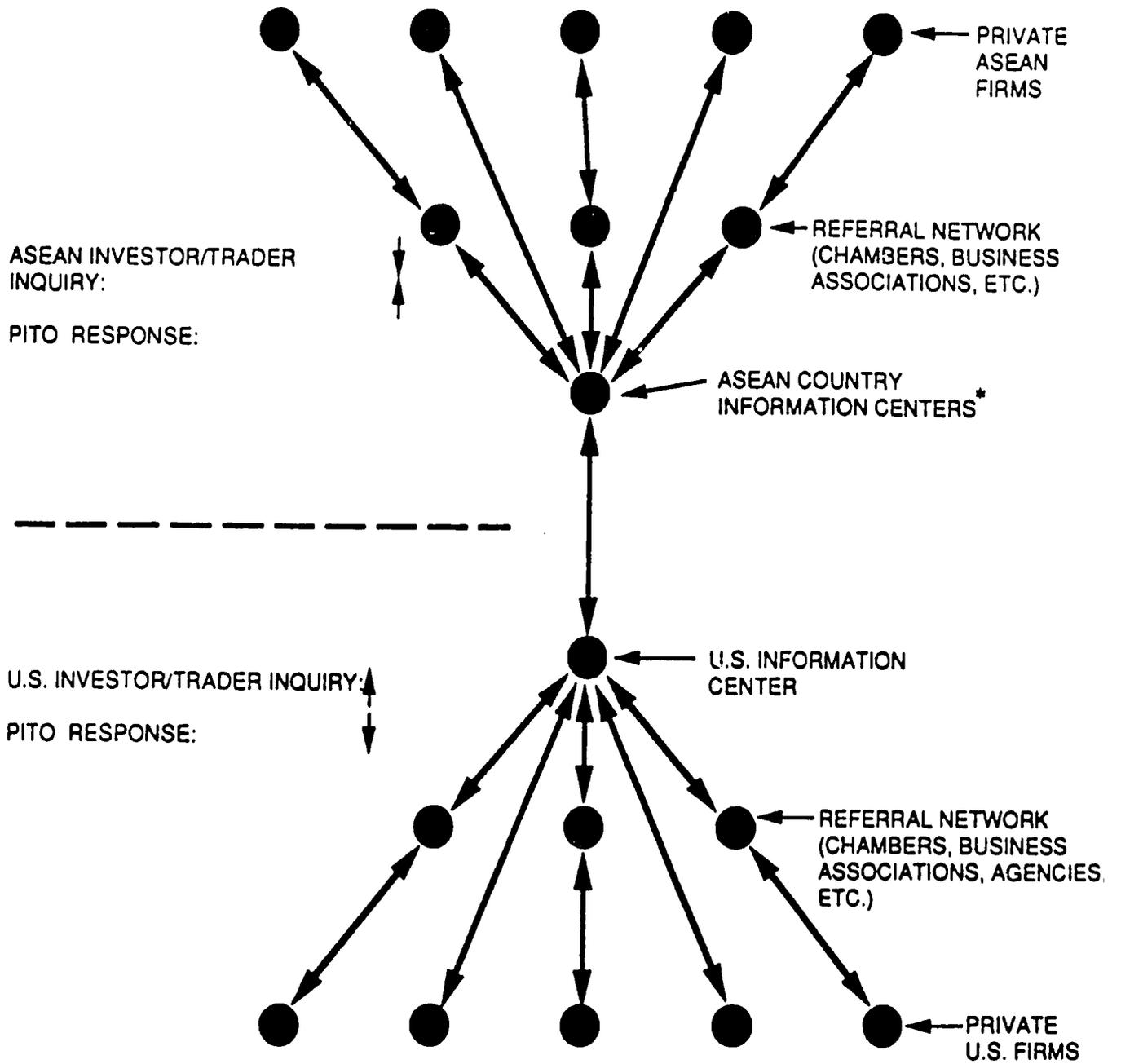
The information center in each ASEAN nation will be organized and operated by the ASEAN section of AUSBC. Access to the U.S. private sector and handling inquiries related to U.S. policies and regulations, and potential sources of financing, will be provided by the ASEAN-U.S. Business Council/Center for Technology Exchange (AUSBC/CTE) organization.

If locally-available information is not sufficient, the inquiry is transmitted from one information center to another for response. For example, if a Thai firm seeks information on processing methods or USDA requirements for its products, this request is directed from the PITO center in Thailand to the PITO center in Washington. The latter then contacts the appropriate private sector organization or USG agency, and then transmits the response back to the Thai center and firm. The PITO center in each ASEAN country would assume a comparable role for inquiries forwarded to it from U.S. business executives. To the greatest extent possible, the information will be passed via telecommunications to minimize the time between initial inquiry and delivered response.

The Project creates no new institutions. Rather, it draws upon and coordinates institutional resources already in place. The Project will develop some promotional information, but will rely primarily upon existing materials developed by ASEAN and other USG agencies or advise clients on how to access existing information

FIGURE III-1
PRIVATE INVESTMENT AND TRADE OPPORTUNITIES (PITO)

PROMOTION INFORMATION NETWORK



* INDIVIDUAL CENTERS IN EACH ASEAN MEMBER COUNTRY

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systems. The PITO services to entrepreneurs will extend only to providing available information. Beyond that, PITO personnel will provide a list of referrals (law and consulting firms, accounting houses, for example) for which entrepreneurs will pay for services. Thus the Project will be capturing U.S. and ASEAN firms early in their decision-making process, pointing them in the right direction, and thereby increasing the prospects that the leads will not dry up because of a lack of initial response.

In each ASEAN collection point, the following information will be available: lists of local firms (drawn from chambers and trade associations), macroeconomic and business economic data (wages, growth rates, etc.), local trade and investment incentives and rules (from promotion agencies), and U.S. government services. The latter will consist of a summary brochure of the various programs offered by, for example, TDP, OPIC, EXIM Bank and Commerce. The suggestion of a unified brochure with clear instructions on obtaining further information was uniformly applauded by representatives of the U.S. government agencies involved.

While the PITO trade and investment promotion network is being put in place, informational and promotional materials will be developed, both in the region and in the United States. This effort will provide the ASEAN and U.S. centers with a capacity to engage in "reactive" promotion, or the ability to respond to inquiries and requests for assistance. The first "proactive" promotional effort will be to create public awareness of the services available to private entrepreneurs. Over time, additional "proactive" marketing activities will be considered and implemented. However, experience of similar efforts indicates that follow-up with interested parties contacted through promotional activities is key to the success of these activities. Each PITO Center will maintain a data base of inquiries and adhere to a formal follow-up system.

b. Technical Response

As part of the promotional activities, technical support and assistance will be provided by Technonet-Asia to enhance technology development in the region through technology commercialization, including: technical advice on standards, quality control and materials testing; counselling for ASEAN entrepreneurs seeking to acquire U.S. commercial technologies on a mutually-beneficial basis; assistance to OPIC and TDP in their efforts to encourage technology-intensive ventures in the ASEAN region; and seminars and workshops on technology issues and concerns (See Annexes H and I for assessments of the current situation and appropriate approaches regarding technology issues). This support is targeted toward serving the needs of private entrepreneurs. These activities focus on the private sector rather than on governments and on the region rather than specific countries in order to avoid duplication with

major AID-funded science and technology development projects in Indonesia, the Philippines and Thailand.

Other promotional activities planned for PITO will include teleconferencing and similar efforts to bring representatives of selected industries in ASEAN in contact with their counterparts in the U.S. private sector in larger numbers and at less cost than is typically possible through traditional trade and investment missions.

c. Sectoral Emphasis

The initial network promotional efforts will focus on the agribusiness/natural resource based sector, machinery and machine tools and packaging industries, including plastics and paper. In addition, the network will serve to coordinate locally the provision of assistance to firms seeking to increase the flow of commercially viable technologies from the United States to ASEAN countries. Some of the needs assessment work and initial promotional activities in these areas are being conducted under an interim grant awarded to CTE by AID as a pre-project activity.

Sectors selected for future promotion activities will depend on analyses undertaken and on annual work plans developed by the Project Secretariat. The Project Steering Committee will review and approve each plan. Once specific products or services within sectors are identified, activities to stimulate the interest of U.S. firms in these opportunities will be put in action. These will generally consist of:

- identifying specific U.S. firms with the needed technology, interest and capacity to engage in exports or an international joint venture, i.e. licensing agreements, co-production, and equity investments;
- identifying specific ASEAN firms with a demand for the technology and the interest and capacity to engage in an import transaction or joint venture arrangement with a U.S. firm;
- arranging programs in the United States to present ASEAN opportunities to U.S. firms. These efforts will focus on regions where there is a concentration of American businesses in the selected sector. The principal activities will be seminars providing concrete examples of business opportunities, with assistance, where possible, from ASEAN officials and private sector parties;
- arranging trade and investment missions to ASEAN. These missions will normally take place after a promotional effort in the United States to further charge the

interest of U.S. firms. The missions will focus on a sector or sub-sector and only serious and capable U.S. firms will be recruited. Because of its experience in this area, and its project involvement through the ASEAN Growth Fund, OPIC will be asked to assist in recruiting appropriate participants for the missions;

- arranging one-on-one meetings between U.S. and ASEAN firms. The ASEAN-wide and U.S. information network will facilitate meetings between U.S. and ASEAN firms interested in working toward a business arrangement; and
- providing follow-up assistance to companies expressing serious intent. After initial meetings, both parties need to establish communication links to answer questions, describe more details, refine concepts, clarify technical, financial and market information, and cover a myriad of points to bring a transaction to closure. Because of limited experience, smaller firms may well need such "hand holding" services.

A description of current ASEAN and U.S. trade and investment programs, and design team conclusions regarding these programs, can be found in Annex E.

2. Policy Analysis and Problem Resolution

The second component of the PITO project provides a mechanism for ASEAN and the U.S. to engage in policy and analysis and dialogue to overcome constraints facing ASEAN-US business ventures. This component will engage business communities directly in formulating a problem solving agenda through their representation on the PITO Steering Committee, and in productive dialogue with U.S. and ASEAN governments on region-wide concerns.

A candidate list of topics emerged in discussions with ASEAN private and public sector representatives during project design. Among others, the issues listed below are of considerable interest throughout ASEAN and will be conducive to productive dialogue and resolution.

- What steps can be taken to improve the performance of the ASEAN Industrial Joint Venture (AIJV) program?
- What factors are inhibiting trade and investment in ASEAN by small and medium-sized U.S. firms (SMEs), and how can these constraints be reduced?
- What are the prospects of, and factors required, for an ASEAN commodity exchange, or an ASEAN-wide equity market?

- What conditions and policies underly the success or failure of export processing zones, and how can successes best be replicated throughout ASEAN?
- What is the relative degree of access of ASEAN-produced goods in North America (Canada and the U.S.A.), East Asia (Japan, South Korea, Taiwan and Hong Kong) and the European Community, and how can this access be expanded?

While this component will produce analytical studies, these studies are intended to serve as a starting point for policy dialogue and more widespread discussion of policy and other conditions that thwart the economic objectives of ASEAN. To facilitate these discussions, these studies will be carried out in accordance with an issue agenda approved by the PITO Steering Committee. To assist in formulating the agenda the Project Secretariat will submit topics for consideration by the Committee. Studies conducted by the ASEAN institutions participating in the policy analysis network will be submitted formally to the Committee to generate discussion and, subsequently, agreement on the actions that will be taken in response to report findings and recommendations. The reports also will be published as part of a series and distributed to trade associations, universities and appropriate government agencies to encourage discussion.

The Project Secretariat will transmit this agenda to the East-West Center which will be provided a cooperative grant to manage the policy analysis component. In collaboration with the Project Secretariat, the Center will develop a research methodology, including task assignments to be carried out by ASEAN-based policy analysis institutions.

The research network identified by the design team will consist of existing policy study centers such as: Malaysian Institute for Economic Research (MIER), Institute for Southeast Asian Studies (ISEAS) in Singapore, Thailand Development Research Institute (TDRI) in Thailand, Center for Strategic and International Studies (CSIS) in Indonesia, Economic Policy Unit (EPU) in Brunei Darussalam and Philippine Institute for Development Studies (PIDS) in the Philippines. These and other institutes in the region are described in Annex D.

The studies undertaken will be "applied analysis," rather than "basic research," providing information and recommendations or options to overcome existing constraints. The topics will include not only standard policy issues, but also problems related to technology transfer. The Project will also build in a predetermined program for public dissemination and discussion of the analyses. For each topic analyzed, a dissemination and dialogue strategy will be prepared in advance. This might include limited mailings, informal workshops, and formal seminars including participation by both public officials and private sector

executives. Although the costs associated with such efforts, and the time required for research coordination at the international level limit the number of studies that can be carried out in any one year, the Project is expected to provide two to three such activities annually.

These activities are designed to avoid the commonly encountered situation in which policy analyses are simply filed away after they are completed.

Annex F contains a description of ASEAN member agencies responsible for policy formulation, and of the groups identified, to perform policy analysis and recommend resolution.

3. Capital Market Development

The Project's capital market component is limited to providing technical assistance in support of establishing an ASEAN Growth Fund. The PITO assistance reinforces a close collaborative relationship between AID and the Overseas Private Investment Corporation (OPIC) in creating a financial mechanism to increase U.S. trade and investment in the region. Support provided to OPIC will include obtaining services of underwriters and other finance specialists to assist in organizing the fund and establishing project evaluation and other procedures.

The OPIC-sponsored ASEAN Growth Fund will concentrate on providing equity capital for joint ventures geared toward bringing U.S. commercial technologies to the ASEAN region. The ASEAN Growth Fund, whose total capitalization is currently projected at between \$75 to \$100 million, is oriented especially toward assisting start-ups of new small and medium sized enterprises (SMEs). Developing the fund also contributes to the long-term creation of ASEAN equity and capital markets, a goal which was sought by many ASEAN nationals in discussions conducted during the design of the PITO project. Annex G contains a description of the Growth Fund and its place in the ASEAN trade and investment environment.

C. METHOD OF APPROACH

The technical approach for PITO was selected to achieve three key design objectives:

- providing for the greatest possible involvement of the ASEAN and U.S. private sectors in managing and implementing project activities;
- assigning as many responsibilities for carrying out project activities to ASEAN-based organizations as possible; and

-establishing mechanisms and undertaking activities that will increase the coordination and efficiency of trade and investment promotion activities already being carried out or proposed by USG agencies, including the USAIDs in the ASEAN member countries.

1. ASEAN and U.S. Private Sector Participation

The Project is essentially a private sector-to-private sector endeavor. It is designed not only to promote private sector cooperation between ASEAN and the U.S., but also to involve the groups actually conducting trade and investment activities --ASEAN and U.S. businesses -- in carrying out most of the Project's activities.

Participation of the ASEAN private sectors is provided by the AUSBC in each country. These groups offer the dual advantages of being the apex spokesgroups for the private sector in each ASEAN member country as well as the representatives of the private sector to ASEAN. Each AUSBC will participate in the decision-making process of PITO through representatives to the PITO Steering Committee. In addition, AUSBC-ASEAN will receive grant funds from PITO to cover the cost of the information dissemination, referral and other promotional activities being carried out in its country in support of PITO objectives.

On the U.S. side, the private sector will be represented initially by the ASEAN-U.S. Business Council (AUSBC/U.S.), an organization sponsored by the U.S. Chamber of Commerce. As with AUSBC/ASEAN, the AUSBC/U.S. will be responsible primarily for serving as a central point of inquiry in matters related to trade and investment in ASEAN for both U.S. businesses and, through contacts initiated by the AUSBC/ASEAN, ASEAN businesses, as well. To respond to the need to promote the interest and awareness of the U.S. private sector in opportunities in ASEAN, the AUSBC/U.S. will also have responsibility for organizing and conducting promotional activities in the United States.

The AUSBC/U.S. will also provide three members to the PITO Steering Committee, thus participating in developing the agenda for analysis of ASEAN policies and other conditions affecting trade and investment opportunities. The past involvement of the AUSBC Center for Technology Exchange with ASEAN and trade and investment promotional activities in the region offers advantages to the Project that are not currently provided by another U.S.-based organization. However, the design of PITO provides for selection of another source of these services in the future if these apparent advantages are not realized.

2. Emphasis on ASEAN-Based Organizations

The emphasis on achieving Project objectives through extensive involvement of ASEAN-based organizations is based upon simple reality -- trade and investment activities cannot be achieved through a unilateral approach. For every U.S. business that sees a trade or investment opportunity in one or more ASEAN countries, there must be at least one ASEAN entrepreneur that sees an advantage in entering into a business relationship with that firm. Similarly, just as a U.S. entrepreneur is likely to rely on sources in the U.S. for initial information and assistance in verifying a business opportunity, so too is an ASEAN business executive likely to turn first to local organizations and sources in considering the merits of a possible trade or investment venture. The Project responds to this reality by working with the ASEAN-CCIs and strengthening their capacity to respond to inquiries from local entrepreneurs related to trade and investment opportunities.

Another aspect of this emphasis on working through ASEAN-based organizations is the approach taken to establish the policy analysis network. The plan to create a cooperative analysis network comprised of the analysis centers and "think tanks" already in existence in the ASEAN member countries is based upon the reality that these organizations are more likely to generate serious consideration of their policy recommendations than any other institution outside of the ASEAN region. These institutions enjoy a more fundamental understanding of the political and social, as well as the economic issues that underlie many of the trade and investment policies and practices followed by ASEAN countries. Moreover, because these organizations are indigenous and, therefore, likely to have strong national interests, their analyses and suggestions for policy revisions are likely to have more credence than similar recommendations from an outside source. Sound findings or conclusions developed by outside sources, however, might be viewed as undermining sovereign prerogatives and simply dismissed out of hand.

The Project will also rely on an ASEAN-based organization, Technonet-Asia, to provide specific services to ASEAN firms seeking U.S. technologies through licensing, joint ventures, and other commercial arrangements. Technonet-Asia will obtain these services through subcontracts with individuals or other organizations within and outside the ASEAN region. Technonet-Asia has a proven track record in successfully providing technical assistance to SMEs in the region. Project activities will increase its regional standing as an information center for standards and technology matching.

3. Coordination With Other USG Activities

A third feature of the technical approach adopted for PITO is the emphasis placed on interweaving the Project activities with the services provided by USG agencies in the ASEAN region. For

example, in addition to the services currently available from the US&FCS, TDP and OPIC, each of the AID missions in ASEAN is developing bi-lateral trade and investment projects. Rather than duplicating any of these efforts, PITO concentrates on activities that are not currently provided, and in filling a niche that is complementary to these on-going activities. The PITO assistance to the AUSBC-ASEAN is one example. Another is providing PITO funds to support OPIC in developing the ASEAN Growth Fund. This assistance will take the form of financing technical expertise OPIC will require in initially structuring and operating the fund.

D. ORGANIZATIONAL MANAGEMENT APPROACH

The objectives underlying the design of PITO's management structure were to:

- keep the lines of control simple and direct; and
- maximize the amount of funds actually applied to project activities, as opposed to overhead and other supporting services.

Before settling on the organizational structure, consideration was given to relying on the services of a management systems contractor selected through a competitive procurement. This approach was viewed as providing advantages in controlling and integrating project components. However, it also would result in a higher cost to the Project when the salary and overhead costs of contractors were taken into account. Estimates developed for this analysis indicated it would be necessary to sharply reduce the level of effort and funding applied to promotional activities if the Project were implemented by a management systems contractor.

While relying on a single management systems contract would, in theory, eliminate the need to engage separate organizations to carry out promotional activities and provide policy analysis and technology support services, in reality it would be difficult to find a single contractor technically able to fulfill all project component tasks. Obtaining these services through subcontracts issued by the prime contractor would further increase the cost of obtaining these services over the direct approach proposed for PITO. The roles and responsibilities of the participating organizations are described in Section VI. Annex J provides a more detailed description of these organizations and previous experiences.

Management policy guidance and technical oversight of the Project will be provided by a Steering Committee comprised primarily of representatives of the private sector from each ASEAN country and the United States. It will be chaired by the President of the ASEAN section of the ASEAN-U.S. Business Council.

A Project Secretariat will be created, staffed by an Executive Director (project manager), a Procurement Services Specialist, a Management Information Administrator and administrative/clerical personnel. It will report to the Steering Committee. The Project Secretariat will be responsible for day-to-day implementation and management of the Project, in collaboration with the individuals and organizations contracted to carry out Project component activities.

E. PROJECT INPUTS

The inputs to the Project will be technical and related support services financed by AID grant funds. Cooperative grants will be awarded to four organizations to provide technical services relating to the Project components of (1) trade and investment promotion and (2) policy analysis/problem resolution. PITO grant funds will also be used to provide technical assistance in support of the capital market development component. The Project inputs, by component, include the following technical assistance efforts:

Trade and Investment Promotion

- a U.S.-based organization, providing referrals and other information services to private firms, and trade and investment promotion activities in the United States on behalf of the ASEAN member countries;
- an ASEAN-based organization, providing referrals and other information services, and trade and investment promotion activities in each ASEAN member country;
- an ASEAN-based technical support center, providing the services of technology experts to conduct seminars and other activities related to technology commercialization, standards and quality assurance, and adaptation to local requirements;

Policy Analysis/Problem Resolution

- a U.S.-based policy analysis center, extending logistical support and technical guidance to ASEAN policy analysis institutions, and commissioning cooperative analysis efforts by teams of these institutions; and

Capital Market Development

- short-term consultancies to the Overseas Private Investment Corporation (OPIC) in support of establishing and implementing an ASEAN Growth Fund.

F. PROJECT OUTPUTS

The Project is designed to produce a series of concrete outputs enhancing private sector trade and investment in the ASEAN region and expanding productive ASEAN-U.S. trade and investment activities. These outputs are:

Trade and Investment Promotion

- a self-sustaining information and promotion mechanism designed specifically to meet the needs of the ASEAN and U.S. private sectors. The outputs of this mechanism in turn are expanded trade, investment and mutually beneficial transfers of technology between the United States and the ASEAN region;
- the development of profitable ASEAN-U.S. joint ventures derived from technology commercialization assistance offered by the Project to private firms;

Policy Analysis/Problem Resolution

- a developed and strengthened network of policy analysis centers in ASEAN. The outputs of this network in turn include preparing and disseminating policy analysis studies, direct forms of policy dialogue between the private and public sectors of ASEAN nations and the United States, and a series of policy reforms; and

Capital Market Development

- the design of a successful ASEAN Growth Fund, sponsored by OPIC, leading to accelerated development of ASEAN capital markets and creating new ASEAN-U.S. joint ventures.

G. INDICATORS OF PERFORMANCE

Project success can be measured through a series of concrete performance indicators, described below. However, given the experimental basis of PITO, the financial resources available, and the indirect nature of Project interventions on trade and investment flows, it is important to remain realistic about the magnitude displayed by these indicators. Any of a series of events (such as exchange rate instability, political instability, or reduced demand) could easily over shadow any of the performance targets specified for the End of Project status. Indicators that are appropriate measures of the contributions made by PITO to increased levels of U.S.-ASEAN business activity include the following:

- the number of inquiries and initial contacts regarding potential trade or investment opportunities in ASEAN are expected to increase as a direct result of promotional activities carried out under PITO. A baseline for the current level of inquiries will be established during the first year of the Project;
- the increase in inquiries precipitated by PITO is expected to result in an increase in the growth rate of the U.S. foreign direct investment position in ASEAN as measured by U.S. Department of Commerce statistics;
- PITO's success in attracting the interest of the U.S. private sector to ASEAN can also be measured by an increase in the growth rate of two-way trade between ASEAN and the United States; and
- an increase in the annual U.S. share of total ASEAN imports should also be relied on as an indicator of the success of PITO promotional activities.

In addition to these quantifiable and verifiable indicators, the Project will also achieve the following:

- a demonstrable set of cooperative working relationships among U.S. agencies interested in trade and investment, as measured by the establishment of an informal working group and by specific cases of collaborative actions;
- a series of policy recommendations to strengthen private sector participation in trade and investment; and
- a design for an ASEAN Growth Fund.

H. END OF PROJECT STATUS

The Project is designed to contribute directly to the following end of project status:

- an ASEAN-U.S. trade and investment promotion mechanism will have been fully defined, implemented, tested and demonstrated to stimulate enhanced commercial relations between ASEAN nations and the United States;
- the U.S. investment position in ASEAN will have risen from \$10 billion in 1987 to \$25 billion by year-end 1994, representing a compound growth of 14.0 percent annually. This represents an increment of \$2 billion over the \$23 billion that would be achieved at the historical growth rate of 12.7 percent;

- two-way trade between ASEAN and the United States will have reached \$85.7 billion by 1994, having grown at an annual rate of 17.5 percent. This represents an increase of \$9 billion over the projected level of \$76.7 billion two-way trade that would have occurred at the historical growth rate of 15.9 percent;
- United States firms will account for 18.5 percent of ASEAN's total imports, a share which is 1.5 percent above the last recorded figure (17.0 percent);
- a total of 20 or more policy analyses on concrete business problems will have been completed and disseminated widely to private and public sector policymakers. Of this total, at least 10 of these analyses will have resulted in specific policy reforms implemented by government authorities; and
- a \$75-\$100 million ASEAN Growth Fund will be established, fully subscribed, and distributed in approximately 50 individual joint venture investments, mostly employing U.S. technologies, in the ASEAN region.

IV. RELATIONSHIP WITH OTHER PROGRAMS, POLICIES AND ACTIVITIES

A. RELATIONSHIP TO AID POLICIES FOR PRIVATE ENTERPRISE DEVELOPMENT AND TRADE DEVELOPMENT

The most efficient and effective manner to eliminate poverty and its consequences is through rapid economic growth. In turn, the experiences of the most economically successful developing countries over the past several decades has demonstrated clearly that establishing and maintaining a market-based and outward-oriented economic environment is the most effective, if not the only, way to achieve rapid economic growth. Based on this evidence, AID has put a renewed emphasis on funding activities that support developing countries' efforts to strengthen the private sector and to implement sound economic policies that give the private sector the appropriate incentives to expand production and increase productivity and employment.

The PITO Project is entirely consistent with AID's policy of encouraging increases in productivity through competition, attracting capital flows to finance increased investment and to facilitate the transfer of technology upon which much of productivity growth depends. By encouraging greater exchange of trade, investment and technology between the private sectors of ASEAN and the United States, as well as helping nations diversify the sources and destinations of their trade and investment, the

Project will strengthen the local private sector and increase the openness and outward-orientation of local economies. Moreover, the Project's policy analysis component is designed to help ASEAN nations foster policy and institutional environments that support private sector growth.

B. RELATIONSHIP TO ASEAN OBJECTIVES FOR TRADE AND INVESTMENT EXPANSION

ASEAN member countries pursue multiple trade and investment objectives. They seek to expand and diversify the sources and destinations of their trade and investment. ASEAN countries recognize they are too dependent on the U.S. market for their exports and similarly too dependant on Japanese, Korean and Taiwanese sources for their imports and foreign investment. They recognize that they can build greater stability in their foreign economic relationships if these dependencies can be reduced through diversification and complementarity. Accordingly, they are interested in attracting greater U.S. investments and exports, and exporting more to other ASEAN nations, more advanced Asian economies and the European Community. The Project is entirely consistent with these objectives.

In addition, ASEAN leaders understand that technology is actually transferred through investment and trade. When U.S. firms operate in ASEAN economies, technology is transferred through training and a demonstration effect in maintaining strict standards and quality control. Similarly, purchasing U.S. capital goods transfers technology to ASEAN economies both through the production/manufacturing processes and through training personnel to operate and manage the equipment. The ASEAN private sector has found that U.S. firms are more willing to share their technology than their Asian competitors, and therefore they are especially interested in ventures with U.S. firms. PITO is designed to facilitate this type of commercially driven technology transfer.

C. RELATIONSHIP WITH USAID PROJECTS IN THE ASEAN REGION

The PITO Project has been carefully designed to work effectively with the activities of current and planned projects in the ASEAN region, particularly in promotion activities. While the bilateral projects provide for an intensity of trade and investment promotion activities at the national level that is far beyond the resources available to PITO, the Project supports regional activities, such as assistance to countries where AID does not have a bi-lateral agreement, and U.S.-based activities that are outside the scope of the USAID projects. The result is a mutually supportive arrangement that benefits all of the ASEAN member countries.

The USAID mission in Indonesia is the furthest along in developing a bi-lateral trade and investment promotion project. The project, tentatively called Tradetech, is currently in the PID stage. In its present configuration, TradeTech will provide long-term advisors to work in the Board of Investment, the Ministry of Science and Technology and the Office of the U.S. Foreign Commercial Services. In addition, the project will support trade and investment promotion missions to the U.S. The support provided by the PITO Project will support the TradeTech project by providing assistance in identifying potential partners for U.S. businesses and directing local entrepreneurs to the TradeTech services. This assistance will include follow-up activities by the ASEAN and U.S. sections of the AUSBC in support of trade and investment missions.

A similar project is being developed by USAID for Thailand to provide approximately \$8.0 million in funding for trade and investment promotion activities, expected to be developed and coordinated by a new bi-lateral business council. The estimated authorization date for the Thailand project (Joint U.S.-Thailand Business) is August 1990.

Development of a trade and investment project by USAID in the Philippines is not as far along as the Indonesia and Thailand efforts. Activity supported by PITO in the Philippines will provide temporary support to the Mission's activities and help develop the momentum of the private sector in advance of project implementation. Until a USAID/Philippines project is in place, the mission is looking to use PITO as a "buy-in" vehicle to conduct additional activities.

The other PITO components, policy analysis, problem resolution and establishing an OPIC regional equity growth fund are regional activities not included in bi-lateral project activities, but certainly support the objectives of these projects.

D. COORDINATION WITH USG AGENCIES INVOLVED IN TRADE AND INVESTMENT ACTIVITIES IN ASEAN

A primary objective of PITO is to ensure that its activities are coordinated with and complement the already significant USG programs and resources devoted to trade and investment promotion in the ASEAN region. This is particularly important in the non-AID countries of Brunei Darussalam, Malaysia and Singapore where there is likely to be more involvement with these agencies by the AUSBC/ASEAN assisted through PITO. A description of USG trade and investment promotion activities can be found in Annex E.

At the ASEAN level, PITO supported activities, namely the outreach and inquiry services conducted by the AUSBC, are complementary to the activities of the US&FCS, TDP and OPIC in these countries. On the U.S. side, coordination of these agencies'

activities, plus those of the Office of the U.S. Trade Representative, will be carried out at the working level through an informal "rump" group that the agencies have agreed to join. The AUSBC/U.S. will be encouraged to attend these sessions to keep the group advised on PITO promotional and other activities being conducted in the United States.

E. LESSONS LEARNED FROM SIMILAR AID PROJECTS

The design of PITO has drawn upon AID experience in supporting trade and investment promotion activities. While this experience is limited relative to the experience that AID has amassed in other development assistance areas, it nonetheless has provided important guidance to this project.

It is important to note, for example, that the Project does not propose to create new institutions but rather attempts to draw upon, support and coordinate institutional resources already in place. Moreover, as suggested by Ruddel in his review of AID trade and investment programs, PITO will channel its resources through existing private sector organizations in the U.S. and ASEAN rather than attempting to work through the public sector. (See PITO PID for extended summary of "lessons" identified in Ruddel study.)

The policy analysis component will be conducted primarily by local analysts in accordance with an agenda set by the PITO Steering Committee which has a majority of ASEAN private sector representatives. As has been demonstrated in many development projects, recommendations for change from local persons and organizations are often much more politically palatable to member governments than those offered by outsiders.

The Project also acknowledges the generally poor results that have been experienced in organizing and financing trade and investment missions. No funding is provided by PITO to fund travel and other expenses for potential traders or investors. The low pay-off rate of such activities suggests it is far better to test the seriousness of investors' interests by requiring them to cover these costs.

V. SUMMARY OF FEASIBILITY ANALYSES

A. TECHNICAL FEASIBILITY ANALYSIS

The feasibility of the technical approach to be followed by PITO is supported by a comprehensive survey of over 135 ASEAN and U.S. leaders, analysis of the survey findings, and additional discussions with some of these individuals to confirm the conclusions that were reached regarding the major constraints to

private sector development in ASEAN and to expanded ASEAN-U.S. commercial relations. In addition, the experiences of other trade and investment promotion efforts was reviewed to take advantage of the lessons learned in pursuing objectives comparable to this Project's. The findings and conclusions of these reviews of trade and investment conditions in ASEAN and the capacity of various organizations to support enhanced levels of activity in promoting ASEAN-U.S. commercial relationships are presented in detail in Annex C through Annex J to this Project Paper. The major design requirements that emerged from technical analysis and the key elements of the PITO design are described below.

1. Feasibility of Emphasis on Private Sector Participation

Discussions with U.S. and ASEAN executives, both from public and private sectors, as well as review of the experience of other trade and investment promotion activities pointed up the benefits of designing PITO to work through and with the private sectors in each of the participating countries. For one, this approach was seen as providing a badly needed forum for dialogue between the private and public sector on issues of concern to both. Moreover, it was seen as giving responsibility for organizing and conducting promotion support services to the sector that would be the primary user of the services.

The private sector organizations that will be responsible for carrying out a major share of PITO activities, the ASEAN and U.S. sections of the AUSBC, have the requisite experience in providing assistance to their memberships that is required to meet PITO objectives. Each of these national organizations has a far more extensive network of contacts than the public sector agencies involved in trade and investment activities in the individual countries. Moreover, involvement in previous ASEAN and AUSBC activities has provided the U.S. and ASEAN organizations with experience in working together and coordinating their activities. Concerns that PITO activities will overwhelm the capacities of the ASEAN sections of the AUSBC are addressed by providing for additional staff to carry out these activities, and by programming a gradual build-up of effort.

2. Feasibility of an ASEAN Policy Analysis Network

Virtually all of the primary candidates for participation in the ASEAN-based network of policy analysis centers were visited as part of the PITO design effort. Informal assessments were made of the capacities of these centers based upon the size and qualifications of their staff, and their experiences in conducting studies comparable to the PITO analyses. While all were judged to have the appropriate skills and prior experience, none of the institutions were assessed as having sufficient excess management capacity to devote to the organizational and logistics tasks required to operate the network. The PITO design provides for

management of the network, as well as technical review and assistance support, by assigning these responsibilities to the East-West Center. The Center has been involved in studies and other support of ASEAN activities almost from the inception of the Association. Its academic interests in the region date back to the formation of the Center in the 1960's. Since that time it has become recognized throughout the Asia and Pacific regions as a center of excellence and major resource. The Center has previous experience in working with the ASEAN-based institutions which will be valuable in operating the network, and which was a major consideration in selecting of the Center.

3. Feasibility of Approach to Providing Technical Services

The range of technical services that respondents expressed interest in during the survey of ASEAN executives and public officials is very broad. The potential sources of these services range from U.S. public and private organizations to organizations and individuals throughout the ASEAN region. The design decision to use Technonet-Asia as the focal point for these services was based on several considerations. For one, the organization enjoys an excellent reputation throughout the region through its previous activities on behalf of A.I.D. and other international donors, notably the UNDP. In addition, Technonet-Asia's status as a non-profit organization means that it can provide the flexibility needed to tap U.S. and ASEAN sources of expertise at a lower cost to PITO than would be the case with a for-profit organization. Lastly, Technonet-Asia's essentially central location (Singapore) tends to encourage contact and inquiries from all ASEAN countries, and also offers advantages in conducting seminars and training programs of region-wide interest.

B. Cost-Effectiveness Analysis:

The objectives and intrinsic nature of PITO differ greatly from typical foreign assistance projects. This Project involves technical assistance extended throughout six ASEAN nations and to the United States. It also is directed toward assisting the private sector directly, which varies from normal government-to-government projects. Moreover, it seeks to establish a network of cooperation between public and private sectors, and also within U.S. government agencies involved in trade and investment promotion.

In sum, PITO is highly experimental and unique, and for these reasons cannot objectively be subjected to a standard cost/benefit economic analysis. Economic analysis, as applied in project design, is concerned with determining if a project is a worthwhile investment for a country and relies on estimates of costs, benefits, and resulting rates of return. Activities of the nature proposed under PITO, however, do not produce outputs that are appropriate subjects for traditional costs-benefits analysis. While

PITO will produce benefits and revenues to the ASEAN member countries in the form of increased investments and trade, these benefits are not direct outputs of PITO. Rather, they are the result of the mechanisms and more favorable climate for trade and investment that PITO has helped to form. Estimates of the magnitude of these benefits in terms of the average size of the investment or the resulting level of trade flows would be highly speculative. Costs-benefits analyses based on these estimates would yield equally speculative results.

It is appropriate, however, to examine the options that were considered to achieve the Project objectives and to confirm that the approach selected is the most cost-effective of the alternatives available.

Two alternative approaches to implementing PITO were considered in design of the Project:

- Option One: Combining virtually all of the services to be provided by PITO under a master contract to be awarded through a competitive procurement. Under this approach, a contractor would be responsible for carrying out proactive trade and investment promotion activities, as well as for selecting, contracting with and managing the activities of the various ASEAN organizations participating in PITO. Under this approach to implementation, responsibilities of the Project Secretariat will be limited primarily to administering the master contract and monitoring contractor performance.

- Option Two: Entering into separate contract/grant agreements with each of the ASEAN and U.S.-based organizations to obtain the various services required to carry out PITO. Under this approach, the Project Secretariat will be responsible for administering multiple contracts and assessing the performance of several organizations.

The principal advantage of Option One is that the contract administration workload is relatively light. Staff size can be kept small, and the Secretariat can concentrate on monitoring PITO activities and performance. There are at least two disadvantages apparent in the Option One approach, however. Most significant of these is the higher cost to the Project attributable to the overhead and other indirect costs incurred by the contractor. For purposes of analyzing the cost-effectiveness of the option, it was estimated that overhead costs would increase direct labor (salary) costs by 50% and G&A costs would increase the total amount of the contract by 15%. An additional 7% was added to provide for the fixed fee that generally applies to contracts of the type contemplated.

A second disadvantage of Option One is that it does not provide adequate flexibility in selecting, adding or replacing

organizations to carry out PITO activities. For example, each contractor competing for the PITO contract will assemble a team to carry out the Project activities. While the team proposed by the contractor selected for award most likely will be the best combination of teams offered, the winning team probably will not include all of the organizations with the best capacity and experience to carry out specific project activities. These organizations will be distributed among other contractor teams. In addition, contractual agreements between the prime and subcontractors along with other contractual considerations might make it difficult to add additional organizations to the master contract team in the future. These arrangements might also preclude, or at least make it difficult, to substitute one subcontractor for another in response to changing requirements.

Option Two overcomes the two major disadvantages associated with the previous option, namely: it provides all the necessary PITO activities at less cost; and it provides for considerable flexibility in adding new or expanding existing services. Its principal disadvantage is that it imposes a contract management work load on the Project Secretariat that is greater than is the case under Option One. A Contract Services Administrator position is provided in the Project Secretariat to handle this workload.

In calculating the relative cost-effectiveness of the two options, both were assumed to be equally effective. This simplifies the analysis and reduces it to a straightforward comparison of costs. It does, however, understate the higher effectiveness that can be achieved through the greater flexibility in obtaining services afforded by Option Two. The principal differences in cost between the two options are accounted for by the indirect costs incurred by the management systems contractor for Option One and the additional staff position required in the Project Secretariat under Option Two. These costs were annualized at \$325,000 for Option One and \$50,000 for Option Two. Assuming a base of services of \$1.5 million under both options, the ratio of Option One to Option Two costs is 1.2:1 or, stated another way, Option One is 20% more costly. This difference is significant. Option One would add approximately \$1.5 million to the cost of implementing PITO over a five year period without any increase in effectiveness. Based upon the magnitude of the difference and the lack of any apparent offsetting advantages, Option Two was selected as the most cost-effective approach for PITO.

C. Financial Analysis

Estimates of the costs for carrying out the PITO components were drawn from cost materials submitted for comparable project activities and the experience of the design team with costing practices of consulting and academic institutions.

The basis for the estimates for each PITO component are described below. These estimates reflect activities and expenses that are anticipated in Year One. Estimates of the annual and total costs for PITO are shown in Table VI-2.

Promotion Activities:

Project Secretariat

Director (PSC) Salary + Allowances	\$40,000
Contr. Svcs. and Info. Specialists	60,000
Admin./Support Staff	15,000
Office Expense/Rent	70,000
Van/Carryall vehicle	<u>15,000</u>
Total	\$200,000

Technical Services -	
10 TCN short-term consultants @ 10,000	\$100,000

AUSBC-ASEAN Activities

6 x \$59,333 - First Year Activities	\$350,000
6 x \$80,000 - Subsequent years	

Trade and Investment Representatives

6 Representatives on a part-time basis under AUSBC-ASEAN x \$10,000	60,000
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Technical Services/OA Assist./Seminars

20 short-term consultants @ \$15,000 (22 days+per diem+travel)	\$300,000
4 Seminars/conferences x \$20,000	80,000

AUSBC - U.S.:

U.S.-based Manager	\$60,000 p/a
Information/DBS Specialist	\$40,000
Administrative Personnel	\$20,000
Total	\$120,000
Overhead @ 60%	72,000
Office expenses	<u>8,000</u>
Total	\$200,000

Four (4) conferences/seminars per year (incl. travel/per diem) @ 42,500	<u>170,000</u>
Total U.S.-based	\$370,000

Policy Analysis and Resolution

East-West Center Policy Support - Part-time Director and Support	50,000
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- Travel/per diem/other expenses	50,000
ASEAN Policy Analysis Centers	
- 6 studies x \$30,000	180,000
<u>Growth Fund Assistance</u>	
10 short-term consultants @ \$20,000	\$200,000

Evaluation and Audits:

Evaluation throughout Life of Project Contract - incrementally funded to provide baseline data and continuous monitoring/assessment of PITO process	\$415,000
Audits - locally contracted	\$90,000

The Financial Plan is reasonable and procedures for financial control appear adequate pending evaluation of the Secretariat's capabilities, once its members are trained.

D. SOCIAL SOUNDNESS ANALYSIS

In focusing on increased private sector trade and investment, the Project enhances current efforts by ASEAN member countries to accelerate economic growth through open, export-oriented economies emphasizing value added production. In comparing alternative models of economic development, there is sufficient evidence that this approach yields the greatest gains in living standards.

The direct beneficiaries of the Project will be the business leaders and their employees who are participants in business relationships with U.S. co-venture partners and technology suppliers precipitated by PITO activities.

Because the Project will likely emphasize agribusiness and resource based industries, there should be considerable favorable affect on the rural areas in that they will provide the location for processing facilities as well as the raw materials. Increases in employment in these areas should be substantial.

Project benefits will accrue to women as well as men in view of the ease of access that women have to education and business opportunities in the ASEAN economies. This holds particularly in the Philippines, Thailand and Singapore and is becoming increasingly the case in the other ASEAN countries as well.

Numerous analyses have shown that social conditions are improved as a direct consequence of increased economic activity and sustained growth and development progress, because accelerated growth creates resources for financing social programs and

projects. The Project is designed to achieve such growth and progress through increases in private sector business activities. As a result, the Project will contribute to improved social conditions in ASEAN.

VI. IMPLEMENTATION PLAN

The Project will be implemented over six years and has a scheduled Project Assistance Completion Date (PACD) of September 30, 1995. The organizations with responsibilities for implementing and managing PITO participated in the Project's design and agree to its effectiveness.

A. ADMINISTRATIVE ARRANGEMENTS

1. Government of The Kingdom of Thailand

Thailand, the current host country for the ASEAN-U.S. Dialogue, will be the signatory of the Project Grant Agreement establishing the Private Investment and Trade Opportunities (PITO) Project.

2. ASEAN Implementing Agencies

The ASEAN Section of the ASEAN-U.S. Business Council (AUSBC) will be the Project's coordinating organization. A joint ASEAN-U.S. Steering Committee will provide overall guidance and oversight of the Project. A Project Secretariat will be responsible for day-to-day management and implementation.

3. Project Disbursement

Disbursements will be made to the Grantees in the form of advances. The Grantees will pay suppliers of goods or services following procedures set forth in Project Implementation Letters (PILs) and based upon activities and budget guidelines prepared by the Project Secretariat and approved by the Steering Committee. The advances will be liquidated on the basis of vouchers sent to AID and replenished as vouchers are approved.

The Project Secretariat will prepare an annual work plan and corresponding budget based upon a review of the previous year's activities and activities identified for the coming year. Annual funding levels, within the constraints of PITO obligated amounts, will be determined by project progress as indicated through monitoring and evaluation and projected annual requirements. This plan is to be submitted for approval to the Steering Committee two

months (i.e. November) in advance of the year covered. This timing will permit review of the PITO work plan and budget at the annual AUSBC meetings held in January.

The annual plan will be reviewed by AID/ASEAN on the basis of progress, performance and projected annual requirements as determined through monitoring and evaluation. Annual plan approval and earmarking of funds will be relayed to the Secretariat through a PIL from AID/ASEAN. The Project will be incrementally funded in five obligations, subject to the availability of funds.

B. PROJECT MANAGEMENT

The organizational structure and assignment of responsibilities for managing the PITO Project are shown in Figure VI-1. The key responsibilities of participating groups are described below.

1. The Steering Committee

The Steering Committee will provide overall policy guidance and oversight to the project. It will be chaired by the President of the ASEAN Section of the ASEAN-U.S. Business Council (AUSBC), and its membership includes:

- 6 ASEAN representatives of the AUSBC, one from each of the six ASEAN countries;
- 3 representatives from the U.S. section of the AUSBC;
- a representative each from the COTT, COIME and COFAB Committees of the ASEAN Secretariat;
- the Director of the ASEAN Division of the Ministry of Foreign Affairs of Thailand; and
- the AID Representative to ASEAN.

The Steering Committee will meet at least once annually and more frequently as required. The initial meeting will take place in Bangkok, and the venue for future meetings may be rotated as determined by the Steering Committee. The Committee will approve activities to be carried out by the Project in each year, as well as the detailed annual work plan and budget. The Committee will also recommend and review policy studies and is responsible for arranging discussions with public sector leaders to work towards resolution of policy issues.

2. The Project Secretariat

The Project Secretariat will manage the PITO Project. An Executive Director will be recruited and selected by the Steering Committee to direct the Project's daily technical, management and administrative activities.

The Secretariat will be responsible for day-to-day general and financial management of PITO and overall monitoring and evaluation of grant and contract activities. The responsibilities of the Secretariat include:

- executing approved policies and directives of the Steering Committee;
- preparing and recommending annual Project activities and budgets for Steering Committee approval;
- developing budgets and implementation plans for various Project activities;
- managing the administration, accounting and financing of Project activities, including approving payments and monitoring contractor/grantee performance;
- preparing quarterly and annual Project reports, and conducting semi-annual subproject reviews;
- preparing information and analyses for the Steering Committee;
- preparing procurement packages and evaluating proposals;
- monitoring cash and in-kind support from ASEAN public and private sources;
- providing technical coordination and oversight to Project Grantees; and
- liaising with the AID/ASEAN Office.

The Executive Director, knowledgeable in trade and investment promotion activities, will be assisted by a Project Services Officer familiar with contract/grant administration and a Management Information Officer and clerical staff. All personnel hired and funded by the Project, including Trade and Investment Representatives (see below), will be selected in accordance with criteria established by AID, and AID has approval rights for hiring.

A computerized system will be established to track project activities and provide a base of information for use in resource

allocation and evaluation studies. This system will interface with the new AID/W automated Trade and Investment Monitoring System (TIMS) to provide current information on investment activity in the region.

a. Project Services Unit

This unit will be under the direction of the Project Services Officer and responsible for preparing procurement packages and administering grants awarded to ASEAN and U.S. institutions conducting policy analysis and trade and investment promotion work. The unit will also be responsible for preparing procurement packages for services and commodities required to support PITO management and technical services. In addition, the Unit will make payments to contractors, suppliers and grantees and prepare and send invoices and vouchers to AID to liquidate and replenish advances. The four basic core cooperative grants will be negotiated and awarded directly by AID, with administration provided by the Secretariat.

b. Management Information Unit

The Management Information Unit will be responsible for developing budgets and preparing various cost and management reports to assist the Executive Director. The Unit is also responsible for maintaining project activity and financial information on a computerized data base. The data base will provide a permanent record of PITO project accomplishments as well as basic information on U.S. firms that make inquiries and investments in ASEAN countries. The system will be configured to ensure compatibility with the TIMS system currently being installed by AID.

The Unit will work with grantees, assisting them in establishing a communications link with the Secretariat system for ease in transmitting management information and updates to the TIMS. For trade and investment activities, the system, at a minimum, will include:

- an inventory of all participating firms with identification of key contact persons;
- participants categorized by industry and investment/trade objectives;
- a summary of participant critiques on promotion efforts to determine the need for follow-up or improvements in the services provided; and

- an activity report for use in following-up with traders/investors at periodic intervals (approximately 3 months) to determine the status of their inquiries/negotiations.

3. Trade and Investment Promotion Activities

a. ASEAN-Based Activities

Trade and investment promotion activities in each country as defined in the annual work plans will be supported and conducted by the ASEAN section of the AUSBC. Activities will be channeled through or in coordination with the Boards of Investment, local and American Chambers of Commerce and similar organizations including the U.S. Foreign Commercial Service, as appropriate.

The trade and investment promotion function includes:

- serving as a focal point to each of the various public and private sector organizations in individual ASEAN countries; and
- providing a single point of contact between the ASEAN-U.S. Business Council, both U.S. and ASEAN private sectors and organizing and conducting various promotion and orientation activities.

Local representatives and designated organizations will be responsible for:

- advertising and outreach activities to inform the private sector of their services;
- organizing seminars and promotional programs;
- communicating relevant inquiries to AUSBC, and providing the AUSBC with leads and other information on local investor/trader missions or partner searches; and
- directing local investors and traders to the FCS or other USG agencies.

The individuals and organizations promoting trade and investment will receive management direction and administrative support from the Project Secretariat.

To assist the AUSBC in conducting these activities, an ASEAN-based NGO, Technonet-Asia, will provide technical expertise and organize seminars and other programs on technology commercialization issues of ASEAN-wide interest. Technonet-Asia's principal project functions include: identifying and obtaining the services of individuals and organizations with expertise in

material testing, standards and quality assurance, as well as various technology disciplines; organizing and conducting seminars on a range of technology topics of ASEAN-wide interest; and referring investors in search of technology partners to the AUSBC.

Technonet-Asia will be responsible for subcontracting and monitoring the performance of individuals and firms providing expertise in specific technologies, industry standards and quality assurance and for selecting sites and conducting seminars. Technonet-Asia is also responsible for coordinating with AUSBC in developing topics and conducting seminars of interest and in demand by the private sector, as determined by the Project Secretariat.

b. U.S.-Based Activities

The ASEAN-U.S. Business Council (AUSBC) with its affiliated Center for Technology Exchange (CTE) will manage the Project's trade and investment promotion activities in the United States. CTE will be responsible for promoting and making the U.S. business community aware of priority industry trade and investment opportunities available in ASEAN; answering inquiries by U.S. businessmen directed to it by business associations, state investment promotion entities and chambers of commerce; and developing a database of U.S. firms with an expressed interest in ASEAN.

4. Policy Analysis and Problem Resolution

Policy analysis and problem resolution activities will be carried out through a cooperative network of existing ASEAN policy studies centers and the East-West Center. The Center will be responsible for:

- implementing the policy analysis agenda approved by the Steering Committee;
- selecting individuals or groups of ASEAN and/or U.S. policy analysis centers to carry out assigned studies;
- awarding and administering contracts; assisting ASEAN centers obtain technical specialists when required;
- reviewing draft reports and providing critical comments for use in subsequent drafts or final reports to ensure high quality usable products; and
- providing guidance and general assistance to increase the capacities of the analysis institutes.

5. AID Management

Project funding and monitoring will be the responsibility of the AID/ASEAN Office. The AID/ASEAN Office will provide oversight guidance to the project including monitoring, evaluating and reviewing all aspects of the project. AID/ASEAN will also be responsible for reviewing and approving annual funding plans and for initiating Project evaluations. The AID Representative will be a member of the Steering Committee and have access to all project related documents and operations.

AID/ASEAN will be supported by the A.I.D. Regional Legal Advisor and Contract Officer, and the USAID/Thailand Controller. Grants to the implementing institutions will be administered by the Contracting Office, USAID/Thailand.

C. PROCUREMENT PLAN

Procurement of goods and services will be the responsibility of the AID/ASEAN Office and the Project Secretariat. The procurement plan includes cooperative grant agreements, personal services contracts and purchase orders for basic services and supplies. A time-phased description of activities and services to be initiated in Year One of PITO is provided in Annex K.

1. A.I.D./ASEAN Grant Agreements

Services will be acquired for the Project primarily through umbrella cooperative grant agreements and personal services contracts. Most project funds except for technical assistance to the ASEAN Growth Fund and evaluation and audit services will be obligated by AID Cooperative Grants to the four implementing institutions. These Grants are based upon the status of the four implementing institutions as regionally-oriented organizations with established records in furthering economic development. (See Annex J for a detailed description of the grantees).

The grants provided to the proposed organizations will not subsidize and, therefore, will not provide these organizations with cost advantages in activities in which they compete with private sector firms. There either are no existing private sector sources of the proposed PITO services, as in the case of the ASEAN section of the AUSBC, or as in the case of Technonet-Asia, the grant funds will be used, among other things, to subcontract with firms offering the specialized technical services required to support PITO activities. The grants will specify activities to be supported, budgets for this support and criteria for evaluating grant fund activities. Each grantee will be required to submit a work plan describing each project activity to be funded during the year, the estimated cost of each such activity, and a proposed implementation plan (to include site, contracting arrangements and likely participants). Principal responsibilities of the grantees are described below.

a. Trade and Investment Promotion - ASEAN-Based*

The ASEAN Section of the AUSBC, funded under a grant to the Federation of Thai Industries (FTI), will manage the Project within ASEAN. These funds will be used to support AUSBC/ASEAN efforts in carrying out ASEAN-based trade and investment promotion activities. Project funds will be used to hire Trade and Investment Promotion Officers where necessary. AUSBC/ASEAN will function similar to its counterpart organization in the United States -- AUSBC/U.S. -- and the two entities will coordinate their efforts to enhance Project results.

It is anticipated that each AUSBC/ASEAN will hire or appoint an individual to provide information and referral services in support of potential ASEAN-U.S. business ventures. Prospective candidates will be submitted to the PITO Steering Committee for consideration if their position is to be funded by the Project.

b. Trade and Investment Promotion - U.S.-Based*

A cooperative grant will be awarded to the Center for Technology Exchange (CTE). The responsibilities of CTE will include:

- organizing sharply focused meetings throughout the U.S. to introduce U.S. companies to investment and trade opportunities in targeted industries in ASEAN; and
- serving as a source of information and referrals for inquiries received from trade associations, state trade and investment organizations, and private U.S. firms or individuals.

c. Technical Resources Services

A cooperative grant will be awarded to Technonet-Asia to provide general technical support for commercializing technologies and related assistance as defined by the Project. Services provided by the grantee will include:

- obtaining the services of organizations and individuals with expertise in materials testing, standards development and quality assurance to provide assistance in these areas to manufacturers/producers/packagegers; and
- organizing and conducting seminars on identified priority technology topics of specific interest to the ASEAN private sector, using experts from within and outside ASEAN.

* Per recommendation of ANE Bureau, Project Review Committee (State 88-254529) and subsequent discussions with AUSBC-ASEAN and U.S. representatives, AID/ASEAN agreed to consider a single proposal for T & I promotion activities. If the proposal is acceptable, one grant will be provided for the AUSBC services. (see Bangkok 88-47939).

d. Policy Analysis and Problem Resolution

A cooperative grant agreement will be awarded to the East-West Center which has proven experience, capabilities and credibility in trade and investment policy analysis in the Asia region. The grant will provide for management and logistics support for studies conducted by the ASEAN institutions. The Center's responsibilities will include:

- working closely with the PITO Steering Committee to develop and carry out a comprehensive policy analysis program that will increase trade and investment activity in ASEAN and, in particular, activities involving U.S small and medium-sized firms;
- reviewing policy directives issued by ASEAN permanent committees and refining the analysis objectives, if required;
- selecting teams or individual ASEAN institutions to conduct policy and constraint analyses;
- providing on-going guidance during the studies and review draft reports, as required; and
- assisting in locating technical experts, if necessary, to work with ASEAN/US institutes on specialized topics.

e. ASEAN Growth Fund Support

The project will fund technical assistance services requested by the Overseas Private Investment Corporation to assist it in organizing and establishing an ASEAN Growth Fund. These services will be provided through "buy-ins" to centrally-funded contracts and through purchase order or comparable contracting arrangements. Assistance to OPIC is expected to include the services of investment banking specialists to help it develop project evaluation, portfolio management, and other risk assessment capabilities for managing the Growth Fund.

f. Evaluation and Auditing Services

AID/ASEAN will contract for technical services to evaluate PITO on a continuous basis over the life of the project. A contract will be awarded competitively in the first year of PITO to establish a baseline and to initiate data collection for use in subsequent evaluations of Project performance. A mid-term evaluation will be conducted in FY 1991 to assess progress in creating an effective mechanism and strategy for expanding U.S. firms' participation in ASEAN. A second evaluation, in FY 1994, will focus on the extent to which the PITO approach has proven viable as indicated by closures on trade and investment agreements

and other measures. Because of the importance of initiating the evaluation activities as close as possible to the start of PITO, A.I.D./ASEAN will explore the feasibility of obtaining assistance in establishing the baseline and conducting the first evaluation through a "buy-in" to a centrally-funded contract.

The Project will also fund any pre-award review which must be performed, and at least one audit during the LOP.

2. Project Secretariat Contracting Arrangement

a. Management Services

The Project Secretariat will contract with individuals and other organizations to obtain various support services. These services will include: administrative support; printing and publication services related to promotion activities; and organizing Steering Committee and other meetings.

b. Vehicle Procurement

The Project Secretariat will require one vehicle for staff transportation to meetings in Bangkok and its environs. Vehicle procurement, to be undertaken by the Secretariat, will be authorized in accordance with AID procurement regulations.

3. Gray Amendment

The Project will rely heavily on ASEAN-based procurement for project and sub-project services. The exceptions are the services of the AUSBC/CTE and the U.S. policy studies center which will be obtained through cooperative grant agreements. It is expected that some study centers at universities, which may include historically black colleges, might be a source for analysis support services sourced under the project. AID/ASEAN will work with the ANE Bureau Minority Business Officer to identify qualified Gray Amendment firms and institutions that might be included in the list of potential sources for the U.S. technical assistance supplied.

D. COMMODITY PROGRAM

Commodity procurement will be limited to locally available office equipment for the Project Secretariat and the Trade and Investment Representatives. This will include primarily desks and office furnishings and, in the case of the Project Secretariat, computer hardware and software for maintaining project financial and performance data and for operating the telecommunications network for the AID TIMS program. Total local procurement in any

one ASEAN country is not expected to exceed \$25,000 and will not include any items with a unit value in excess of \$5,000.

E. TRAINING

Because of the ready availability of personnel in ASEAN countries with the qualifications required for PITO positions, no formal training program is proposed. Trade and Investment Promotion Representatives employed by the AUSBC and the appropriate Project Secretariat staff will be provided with training in operating the TIMS system and on-the-job training related to AID and other appropriate administrative procedures.

F. COST ESTIMATES: FINANCIAL PLAN AND FUNDING FLOW

1. Summary of Financial Plan

Total project costs and the estimated distribution of sources of project financing are shown in Figure VI-2. The AID contribution over the six-year Project is \$13.0 million. The ASEAN and U.S. private sectors will provide counterpart funding assistance on a best efforts basis. In preparing the Summary Cost Estimate and Summary Plan (Figure VI-2), it was projected that these sources may provide approximately 25% of the A.I.D. contribution, or \$3.25 million over the life of the project on a cash or in-kind basis. AID's input will be a grant, incrementally funded with an initial obligation of \$2.0 million for FY 1989. All obligations are subject to the availability of funds, and AID and ASEAN decisions to allocate the necessary budget for the categories contemplated in Figure VI-2. Incremental funding is based upon the budget schedules and planned expenditures of funds shown in Figure VI-3. Because the technical assistance accounts for virtually all of the Project input, the distribution of funds by category of input is not included in the tables presented. This information is included essentially in Figure VI-3. Figure VI-4 summarizes methods of implementation and financing.

Support provided by the ASEAN and U.S. private sectors might take several forms, including: in-kind contributions to Project activities such as policy workshops and investment seminars; local office space; materials and supplies; the salary of ASEAN Steering Committee Members while in session; the cost of facilities and transportation for Steering Committee meetings; and co-financing of PITO trade and investment promotion and technology commercialization activities.

AID will fund administrative and technical support services for PITO, commodities, in-country training, and information and documentation service. Compensation rates, benefits and allowance

FIGURE VI - 2

SUMMARY COST ESTIMATE AND FINANCIAL PLAN
(US \$ 000s)

ASEAN - PITO

SOURCE	A. I.D.		ASE AN*		TO TAL	
	FX	LC	FX	LC	FX	LC
PROMOTION SERVICES						
- U.S.-Based Services	2,200			1,575	2,200	1,575
- AUSBC/ASEAN Services	2,280			450	2,280	450
- Trade & Invest. Reps.	460			100	460	100
- Tech Svcs./Seminars	1,470			450	1,470	450
- Stds./QA Assistance	1,300				1,300	
POLICY ANALYSIS						
- Policy Analysis Support	500				500	
- ASEAN Policy Centers	1,740			225	1,740	225
GROWTH FUND						
- Technical Assistance	200				200	
PROJECT SECRETARIAT						
- Management	1,145			450	1,145	450
- ASEAN Technical Support	1,200				1,200	
- Evaluations	415				415	
- Audits	90				90	
TOTAL	13,000			3,250	13,000	3,250

*Includes contributions from ASEAN governments as well as private sectors.

FIGURE VI-3

PITO - SUMMARY COST ESTIMATE AND FINANCIAL PLAN

PROJECT COMPONENTS	FY 1989		FY 1990		FY 1991		FY 1992		FY 1993		TOTAL	
	AID	HC	AID	HC*								
Promotion Activities												
- U.S.-Based Services	370	100	400	275	400	400	500	400	530	400	2,200	1,575
- AUSBC/ASEAN	350	50	480	100	480	100	480	100	490	100	2,280	450
- T&I Representatives	60	-	100	25	100	25	100	25	100	25	460	100
- Tech Svcs./Seminars	200	50	270	100	300	100	400	100	300	100	1,470	450
- Stds./QA Assistance	180	-	300	-	200	-	400	-	220	-	1,300	-
Policy Coordination												
- Policy Inst. Support	100	-	100	-	100	-	100	-	100	-	500	-
- ASEAN Policy Centers	180	25	300	50	480	50	480	50	480	50	1,740	225
Growth Fund												
- Technical Assistance	200	-	-	-	-	-	-	-	-	-	200	-
Project Secretariat												
- Management	200	50	225	100	230	100	240	100	250	100	1,145	450
- ASEAN Tech Support	100	-	250	-	250	-	300	-	300	-	1,200	-
- Evaluations	50	-	75	-	140	-	-	-	150	-	415	-
- Audits	10	-	-	-	-	-	-	-	80	-	90	-
TOTAL	2,000	275	2,500	650	2,500	775	3,000	775	3,000	775	13,000	3,250

*Note: Estimates shown for Host Country (HC) include potential contributions from public sector and ASEAN and U.S. private sectors.

11/10/88

FIGURE VI-4

METHODS OF IMPLEMENTATION AND FINANCING
(US \$000)

<u>Method of Implementation</u>	<u>Method of Financing</u>	<u>Estimated Amount</u>
TA - Cooperative Grant Agreement: AUSC	Treasury Letter of Credit	\$ 7,285.0
TA - Grant to Technonet/Asia	Direct Payment	2,770.0
TA - Cooperative Grant Agreement: East-West Center	Treasury Letter of Credit	2,240.0
TA - Buy-In to PRE PEDS Project	Direct Payment	200.0
Evaluation/Audits - Direct Institutional Contracts	Direct Payments	505.0
		<hr/>
Total Project		<u>\$ 13,000.0</u>

Note that the Direct Payment Method of Financing proposed herein will, in almost all cases, involve substantial advances. This is necessary because the institutions involved in the project do not have sufficient resources and, in any case, would be unable to utilize U.S. banking facilities on a daily basis. AUSC and the East-West Center are a U.S. PVO and educational facility respectively and, accordingly, would utilize a U.S. Treasury Letter of Credit facility.

will be in accordance with AID regulations and applicable AID/ASEAN practices.

Local currency is required to cover Project activities, the salaries of Project Secretariat staff, trade and investment promotion representatives, and to meet expenses incurred for office space, equipment, local materials and supplies. Foreign Exchange will be required for an estimated 40% of the AID grant. Local currency, 60% of the AID contribution, will be obtained through conversion from the grant at the highest rate of exchange prevailing and declared for foreign exchange currency by the appropriate authority in each ASEAN country at the time disbursements are made.

Studies conducted by ASEAN policy centers will also be financed with local currency.

2. Financial Flexibility

The Project Secretariat may transfer funds between budget categories, not exceeding 15% of the line item amount, without Steering Committee approval. Adjustments in excess of 15% must be reviewed and approved by the Steering Committee and AID.

3. Funding Flow

The Project's funding flow is shown in Figure VI-5. Funding will flow to each grantee in the form of advances.

G. MONITORING PLAN

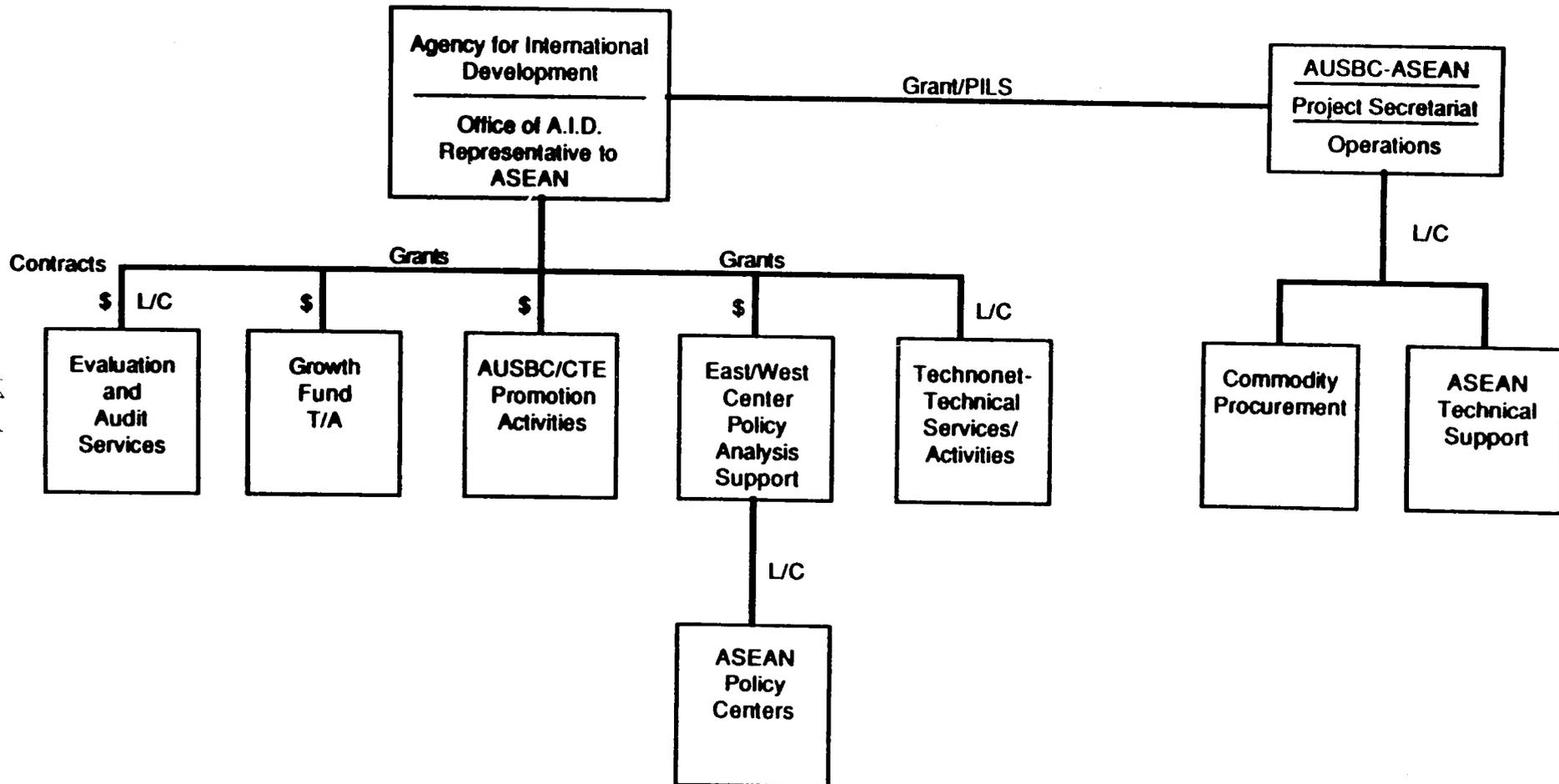
1. PITO Project Management System

The primary responsibility for managing project activities is vested in the PITO Secretariat Executive Director. Monitoring of PITO activities and general management guidance will be provided as necessary by AID/ASEAN. Overall project monitoring will be performed by the Steering Committee through its periodic meetings and the Office of Thailand's Director General for ASEAN in conjunction with its responsibilities as signatory to the Project Agreement.

The Steering Committee will assess general progress towards the Project's goal and purposes and, more specifically, monitor the achievement of stated yearly outputs in conjunction with its review and approval of the yearly implementation plan and budget.

The Project Secretariat will prepare annual progress reports summarizing activities, achievement of objectives, especially the

FIGURE VI- 5
COMPONENT FUNDING FLOW



4/3/02

outputs projected from the previous year's implementation plan, problems causing delays and any deviations from planned outputs and propose solutions. The annual report will be submitted to the Steering Committee for review, and subsequently to the A.I.D. Representative to ASEAN and the Director General ASEAN Division of the Thai Ministry of Foreign Affairs in recognition of their additional PITO and ASEAN responsibilities, respectively. In addition to the annual report, the Project Secretariat will prepare quarterly narrative reports covering;

- (a) major achievements during the quarter, and
- (b) actual or likely problems/issues/delays affecting current year targets and level of activity.

The report will ensure that Thailand's Director General for ASEAN and AID are kept current regarding PITO performance and the need, if any, for corrective actions.

Direct monitoring of project activities both in ASEAN and the U.S. will be conducted by the A.I.D./ASEAN Representative, Secretariat staff, and evaluation contractor through routine reporting and communications with the grantees and the six individual ASEAN country promotion representatives. Each cooperative grantee will comply with reporting requirements established by the Secretariat and described in the Project Agreement.

Site visits will be made, as necessary, by Secretariat staff to review subproject activities, progress and end-user investment and review plans for future programs. A report will be prepared by the Secretariat staff after each visit summarizing the findings and providing recommendations for replicating or improving various activities.

2. Office of AID Representative to ASEAN

AID/ASEAN will have continuing monitoring and review responsibilities in the following areas:

- (a) monitoring operating procedures including financial, procurement, contracting, subproject policies and other related activities;
- (b) monitoring and reviewing reports prepared by the Secretariat and cooperative grantees;
- (c) reviewing and approving the selection and contracting of specialized contractors and consultants to assist the Secretariat, including compensation rates; and

- (d) site visits to each of the ASEAN countries and the United States, as needed, to independently assess progress and problems.

The AID/ASEAN Office will also monitor the Project Secretariat's activities to ensure that it is performing effectively and complying with the policies, procedures and decisions of the Steering Committee. Secretariat reports will be reviewed and discussed with the Secretariat. There will also be periodic informal meetings with Secretariat staff to ensure common understandings on project implementation matters. In addition, AID/ASEAN will have periodic consultations with Steering Committee members, including attendance at formal sessions of the Committee, with ASEAN officials, with members of the ASEAN and U.S. business communities having interests in ASEAN and with USG officials in ASEAN and the United States. AID/ASEAN will be responsible for assessing the effectiveness of overall implementation progress.

H. EVALUATION PLAN

PITO is an innovative project, As such it may need periodic readjusting of policies and procedures to keep pace with rapidly changing economic trends and new challenges and opportunities. Mechanisms designed into the project, with recommendations flowing up from the individual country level to the periodic decision meetings of the Steering Committee, ensure needed flexibility in program emphasis and content to keep pace with change.

Continuing annual assessments of the PITO project will be required as well as more formal outside and independent evaluations. The internal assessment process will be built into the Secretariat's operating procedures and will include three elements :

- Steering Committee annual review of Secretariat performance, policies and procedures;
- Secretariat Quarterly, project reports and semi-annual subproject/activity review; and
- internally conducted annual project assessments.

The annual internal assessments by the Secretariat will review project and subproject progress and provide the basis for the annual work plan, budget and subsequent funding requests. The yearly assessments will update and consolidate the information from the semi-annual reviews by the Secretariat and subproject implementors. The internal assessments will focus on:

- (1) policy effect on ASEAN, or national development problems;
- (2) interaction between Trade and Investment Promotion Representatives, the US and ASEAN private sectors, the AUSBC and USG agencies concerned with ASEAN;
- (3) support of ASEAN institutions to subproject activities;
- (4) implementation of policy recommendations;
- (5) effectiveness of linkages;
- (6) effectiveness of AUSBC/ASEAN and U.S. in promoting interest in specific ASEAN industries and in responding to inquiries received from ASEAN and U.S. firms and individuals;
- (7) monitoring progress;
- (8) unresolved problems, operational procedures, constraints and issues;
- (9) cooperation and support by ASEAN staff and committees;
- (10) effectiveness of the Secretariat in proposal solicitation, screening, project monitoring, support services, future planning, coordination among sub-projects; and
- (11) future planning and direction.

The Steering Committee will retain oversight pertaining to the effectiveness of administrative policies and procedures, Secretariat staff performance, functional support, and services operations.

Formal outside evaluations of PITO will take place in FY91 and FY94 and will be conducted by U.S. and ASEAN consultants. Evaluation skills required will include: trade and investment promotion; policy analysis; technology commercialization; economic analysis; management; and administration and resource development. The evaluation team will assess the following:

- (1) the extent to which the Project has been able to develop and demonstrate a sound mechanism and strategy for achieving greater U.S. small and medium business participation in ASEAN economies;
- (2) the effectiveness of U.S. and ASEAN based promotional activities in expanding trade and investment among ASEAN and U.S. firms;

- (3) the extent to which cooperative policy research and analysis activities influence the ASEAN policy making process;
- (4) the extent to which technical liaison activity supported by information services has contributed to new and better links among ASEAN and U.S. business executives;
- (5) the extent to which PITO project activities have led to increased marketing of value added products from ASEAN countries to East Asia; and
- (6) the extent to which coordination of USG agency activities related to trade and investment has been increased.

I. IMPLEMENTATION SCHEDULE

The implementation schedule for the PITO Project is presented below in detail for year one of the Project, and at a summary level for subsequent years.

1. Year One Activities

<u>Activity</u>	<u>Month</u>
Pre-Project Activities	
1. Advertise Project Secretariat positions	July 1989
2. Identify potential office sites	July 1989
Project Activities	
1. Project Paper approved	July 1989
2. Project Agreement signed, PIL #1 issued	August 1989
3. Draft Cooperative grants for promotion and policy analysis	August 1989
4. Steering Committee meeting	September 1989
5. Project Secretariat staff hired	October 1989
6. Initiate ASEAN assistance to OPIC	November 1989
7. Four Core cooperative grant agreements executed	November 1989
8. Trade/Investment Promotion Representatives selected in joint review	December 1989
9. Prepare procurement package for evaluation contractor	December 1989
10. Negotiate leased space	January 1990
11. Negotiate FCS support/coordination	January 1990
12. Conduct U.S. promotion seminar	March 1990
13. Initiate policy studies	March 1990
14. Conduct U.S. promotion seminar	June 1990
15. Conduct ASEAN technical seminar	August 1990
16. Initiate evaluation activities	July 1990

<u>Activity</u>	<u>Month</u>
17. Conduct project assessment	September 1990
18. Steering Committee meeting (Review progress, approve work plans/budgets for Jan-Dec.'91)	November 1990

2. Out Year Activities

<u>Activity</u>	<u>Month</u>
1. Conduct policy studies	December 1990
2. Conduct ASEAN seminar	January 1991
3. Negotiate/Renew core grants	January 1991
4. Conduct mid-point evaluation	January 1992
5. Renew contract for four core grants (assuming positive performance)	January 1993
6. Conduct second evaluation	July 1994
7. Conduct audit	August 1994
8. PACD	September 1995

Note: ASEAN-based seminars and policy studies will be conducted on a continuous basis through the PACD. Frequency of U.S. promotional seminars on an annual basis will be determined from the results of evaluations and other appraisals of the effectiveness of these activities.

J. CONDITIONS, COVENANTS, AND NEGOTIATING STATUS

1. Conditions Precedent to Initial Disbursement

Prior to initial disbursement for the Project, or to the issuance by AID of documentation pursuant to which disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID:

The names and specimen signatures of each official representative of the Grantee who will have authority to sign implementing documents under the Project.

2. Condition Precedent to Additional Disbursement

Prior to disbursement for project activities for calendar year 1991 and each subsequent calendar year, the Grantee will, except as the parties may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID, the annual work plan for project activities. Such work plan will include a proposed description of each project activity to be funded during the year,

the estimated cost of each such activity, and a proposed implementation plan (to include site, contracting arrangements and likely participants).

3. Covenants

The Grantee covenants that it will:

- (a) arrange for the timely creation of the Steering Committee and the Project Secretariat and to meet formally with AID, at least semi-annually, to review major elements of project implementation/progress;
- (b) arrange for the Project Secretariat to prepare an Annual Report of project activities and ASEAN country support to be reviewed and approved by the Steering Committee and AID; and
- (c) arrange for the Project Secretariat to establish a comprehensive management information and monitoring system as well as an evaluation procedure as an integral part of the Project. The system will provide, during the implementation of the Project and at one or more points therein:
 - (1) periodic progress reports that clearly document the progress and problems of the Project and provides the basic data for follow-on evaluations;
 - (2) annual Project assessments and two mid-term evaluations of progress toward attaining Project objectives;
 - (3) evaluating problem areas or constraints which may inhibit such attainment and identifying action recommendations for their timely resolution; and
 - (4) documenting economic indicators that, to the degree feasible, show the overall development effect of the Project.

4. Source, Origin and Nationality

The U.S. and the ASEAN countries of Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand will be eligible sources, origins and nationalities for services and commodities financed by AID.

5. Negotiating Status

There has been a continuous dialogue with the ASEAN and US public and private sector representatives in preparing this Project Paper. The ASEAN representatives are in agreement with the Project's objectives, description and implementing procedures as presented herein.

LOGICAL FRAMEWORK

ANNEX A - I

Project Title and Number: Private Investment and Trade Opportunities (399-0358)

NARRATIVE SUMMARY	OBJECTIVELY VARIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: To contribute to sustained economic growth and development in the ASEAN region.</p>	<p>Measure of Goal Achievement: Targets Increase in ratio of private sector to public sector contribution to GDP</p>	<p>Sources of Information ASEAN economic reports</p>	<p>Assumption for Achieving ASEAN will continue to pursue interest in economic cooperation Political situation will remain stable in the region.</p>
<p>Project Purpose: To establish mechanisms to promote expanded private sector trade and investment between ASEAN and the U.S.</p>	<p>End of Project Status: Increase in number of firms and individuals knowledgeable of investment and trade opportunities in ASEAN involving the U.S., as well as intra- and inter-regional trade.</p>	<p>Project Reports Evaluation and Assessment Reports Regional Economic Reports</p>	
<p>Outputs:</p> <p>1. A self-sustaining mechanism for providing useful information to prospective U.S. and ASEAN firms which in turn promotes trade, investment and mutually beneficial of technology between the U.S. and ASEAN.</p> <p>2. ASEAN-U.S. joint ventures derived from technology commercialization assistance offered by the Project to private firms.</p>	<p>Magnitude of Outputs:</p> <p>10% increase in the rate of growth of the U.S. foreign direct investment position in the ASEAN region, i.e., 14.0% per year</p> <p>20% increase in inquiries into investment opportunities between ASEAN and the U.S.</p> <p>10% increase in the growth rate of two-way trade between ASEAN and the U.S. over the 1970-1986 historical rate of 15.9%, i.e., 17.5% per year</p>	<p>U.S. Department of Commerce statistics</p> <p>Project monitoring data and baseline measured at Project outset.</p> <p>U.S. Department of Commerce statistics</p>	<p>Assumptions for Achieving</p>

private firms.

NARRATIVE SUMMARY	OBJECTIVELY VARIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
3. A network of policy analysis centers in ASEAN which through dissemination of studies and other contributions to policy dialogue leads to policy reforms and resolution of relevant issues.	Increase of 0.25% annually in U.S. share of ASEAN imports from 1986 base of 17.0% A total of 20 or more policy analyses conducted and distributed of which a approximately 10 lead to specific policy reforms by ASEAN governments	U.S. Department of Commerce statistics Project Documentation Evaluation	
4. Design assistance to an ASEAN Growth Fund managed by OPIC leading to accelerated development of ASEAN capital markets and a source of financing for new ASEAN-U.S. joint-ventures.	Design of a Growth Fund that provides financing for 75-100 joint-ventures in the ASEAN region Improved coordination of USG agency trade and investment promotion activities resulting from working relationships developed through PITO	OPIC Reports Project Documentation Project Evaluation ASEAN Policy Statements Trade Publications	

Project Inputs:

Project Components	FY 1989		FY 1990		FY 1991		FY 1992		FY 1993		TOTAL	
	AID	HC	AID	HC								
Promotion Activities	1,220	250	1,550	550	1,480	625	1,880	625	1,580	625	7,710	2,575
Policy Coordination	280	25	400	50	580	50	580	50	580	50	2,240	225
Growth Fund Assistance	200										200	
Project Secretariat	300	50	550	100	620	100	540	100	840	100	2,850	450
Total	2,000	275	2,500	650	2,500	775	3,000	775	3,000	775	13,000	3,250

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5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

N/A

A. GENERAL CRITERIA FOR PROJECT

1. FY 1989 Appropriations Act Sec. 523; FAA Sec. 634A. If money is sought to obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified?
A Congress notification will be submitted to Congress.
2. FAA Sec. 611(a)(1). Prior to an obligation in excess of \$500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?
Yes
3. FAA Sec. 611(a)(2). If legislative action is required within recipient country, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?
No legislative action required.

9. FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?
11. FY 1989 Appropriations Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?
12. FY 1989 Appropriations Act Sec. 549. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?
13. FAA Sec. 119(u)(4)-(6) & (10). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other
- Commitment will be obtained from ASEAN countries to contribute the project on a cash in-kind basis. U.S. local currency will be used to extent it is available.
- ASEAN countries' currencies are not excess.
- Direct assistance will be provided for production of any commodity for export.
- Assistance will not be used in this way.
- No.

9. FY 1989 Appropriations Act Sec. 515. If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committees of both Houses of Congress been properly notified?

This authority will not be exercised.

2. Development Assistance Project Criteria (Loans Only)

N/A

- a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.
- b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?
- c. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

- c. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1989 Appropriations Act (Development Fund for Africa). Does the project fit the criteria for the source of funds (functional account) being used? Yes
- d. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? Yes
- e. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? Regional projects require no host country contribution. The project, however, will receive counterpart support from Asian public and private sources.
- f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority? No, but the project has been designed and will be monitored to ensure the economic benefits produced are participated in by the poor in ASEAN

j. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes

k. FY 1989 Appropriations Act. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

Not determined:
Competitive procedures will encourage participation of these groups.

l. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded by helping to increase

Yes, environmental assessment is not required since all project activities are categorically excluded from environmental review under section 216.2 (C) of regulation 16. Assistance will not deal with the listed subjects.

- n. FAA Sec. 118(c)(14). Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas? No
- o. FAA Sec. 118(c)(15). Will assistance be used for (a) activities which would result in the conversion of forest lands to the rearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands; (c) the colonization of forest lands; or (d) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development? No
- p. FY 1989 Appropriations Act. If assistance will come from the Sub-Saharan Africa DA account, is it (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) being provided in accordance with the policies contained in section 102 of the FAA? N/A

SC(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. PROCUREMENT

1. FAA Sec. 602(a). Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? Yes
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him? Yes
3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? The countries do not discriminate.
4. FAA Sec. 604(e); ISUCA of 1980 Sec. 705(a). If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) No such procurement will be financed.

- f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes
- g. FY 1989 Appropriations Act Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes
- h. FY 1989 Appropriations Act Sec. 505. To pay U.N. assessments, arrearages or dues? Yes
- i. FY 1989 Appropriations Act Sec. 506. To carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes
- j. FY 1989 Appropriations Act Sec. 510. To finance the export of nuclear equipment, fuel, or technology? Yes
- k. FY 1989 Appropriations Act Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes
- l. FY 1989 Appropriations Act Sec. 516; State Authorization Sec. 109. To be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? Yes
5. FY 1989 Appropriations Act Sec. 584. Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? Yes

REQUEST FOR ASSISTANCE

(To be obtained shortly)

ISSUES AND COMMENTS - (Response to PID Approval Cable)

This Annex describes the response provided in the PITO design to suggestions and concerns raised by the Project Review Committee (PRC) and the Project Approval Committee (ANPAC) during their consideration of the Project Implementation Document (PID) for the Project.

1. Funding Issue

It was pointed out during the reviews of the PITO PID that the mortgage for ASEAN activities currently stands at \$8.0 million. Adding PITO and the proposed Technology for Growth projects to the A.I.D./ASEAN portfolio raised concerns about the impact on the mortgage level and the ability to undertake future projects. Three alternatives were proposed for consideration during project design: (1) reduce the size of the Human Resources Project to free up funds; (2) stretch out the funding period to reduce the annual mortgage levels; and (3) combine PITO and Technology for Growth projects.

The comprehensive studies conducted preparatory to designing PITO confirmed the difficulty and impracticality of conducting technology promotion and transfer activities separately from other efforts to promote trade and investment in ASEAN. It is generally recognized that technology transfer is inherent in the trade or investment transaction. Technologies can be promoted, i.e., prospective purchasers or investment partners can be attracted to a "technology", but these promotion efforts can be carried out with considerable economies of scale if they are included in a more comprehensive approach to promotional activities. In recognition of this, the PITO design combines its original objectives with those of the previously separate Technology for Growth project. The result is a project that can undertake significantly more proactive approaches to promotion than could have been achieved by either project on its own. The combined design also provides for more flexibility to take on new activities and adjust its approach as the Project gains experience with what works well and what does not. The result is a project that in total is greater than the sum of the two previous project parts.

2. Concerns Regarding Integration of PITO and Technology for Growth Projects

As indicated in the previous discussion, the PITO design process concluded that there were particular advantages to combining the two projects and that the objectives of both would benefit from consolidation. In considering this possibility, the

PID review committees pointed out that combining the two projects could result in an overly complex effort, and might be perceived by ASEAN member countries as a withdrawal from a previous commitment.

In designing PITO it became apparent that the process of promoting technology transfer and, particularly, encouraging the development of standards and quality assurance programs could be accomplished much more effectively through the broader scope of promotional activities that were included in the conceptual design of PITO. With this realization, the need to maintain a separate and distinct project component devoted exclusively to technology issues became difficult to support and the potential complexity of PITO was reduced considerably.

Discussions with public officials in each ASEAN country made it clear that they were aware of the Technology for Growth Project, as well as PITO. Except for Thailand, none of the officials in the ASEAN countries expressed any objections to the idea of combining the projects. In fact several volunteered that they saw technology transfer as a byproduct of trade and investment rather than an activity that could be promoted separately. In the case of Thailand, officials at the Ministry of Science and Technology did express some concern that the TFG project was being abandoned. This concern appeared to rest on the implications of the change for tentative budgets established by the Ministry in the expectation that the Technology for Growth project might fund equipment purchases. The discussions of the merits of combining the projects with Ministry officials concluded with their agreement that the objectives of the Technology for Growth project were more promotional in nature and that the USAID Mission's Science and Technology Project was a more appropriate source of assistance for their technology activities.

3. Issues Related to Project Approach

The conceptual design for PITO presented in the PID raised concerns about possible overlap or conflict with existing activities of other USG agencies and with trade and investment promotion activities planned by USAIDs. Considerable attention was given to these current and proposed activities in designing PITO. There was a clear understanding of the nature and effectiveness of these activities and, perhaps more importantly, a realization that the limited funding available to PITO did not permit the luxury of duplicating activities being carried out by others. In the design process, PITO was seen as a project that can make an important contribution by undertaking activities that will improve the coordination of existing programs in the ASEAN region. As a result, PITO will carry out a series of activities that fill

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gaps in existing programs and in so doing establishes a much more comprehensive approach to promoting ASEAN-U.S. commercial relations than exists currently.

It became clear in the design process, for example, that there were no viable promotional activities directed at attracting the interests of U.S. businesses in ASEAN as a region. Services that are available in the U.S. are almost exclusively reactive in that they must be sought out. PITO will fill an important gap in current promotional efforts by undertaking much more proactive efforts such as conferences and seminars through the U.S. section of the AUSBC. Similarly, it was noted in discussions with representatives of the private and public sectors in ASEAN that there was no readily accessible source of assistance and information on various technologies in the region. This need is addressed in PITO by supporting Technonet-Asia as a technology information center and providing it with the authority and funding to obtain outside expertise in materials testing, quality assurance and specific technologies as well as conduct seminars and conferences on technology issues of ASEAN-wide interest. Annexes H and I to the Project Paper discuss the technology issues and requirements in ASEAN in considerable detail.

There was a suggestion made during the PID reviews that PITO target small and medium size enterprises (SMEs). This was considered during the design process and rejected out of concerns that targeting any group might divert attention from other more viable prospects. This approach is not to the detriment of SMEs. Not targeting SMEs does not mean they are being ignored. Rather, PITO seeks to appeal to as wide an audience of potential traders and investors in ASEAN as possible. This is consistent with the concept inherent in the PITO design that the Project serves a "frontline" function. Promotional activities undertaken by PITO can only be expected to call attention to the opportunities in ASEAN and to refer interested inquirers to other sources of more detailed information, including potential partners. Nothing that PITO can do would make a "deal" out of a situation in which the two parties do not see a "deal". This is a function, of course, of the opportunity itself and the services that are being provided by others such as financial institutions and government agencies which are part of the referral network of PITO and other programs.

4. Issue Related to Emphasizing Industrial Sectors

It was suggested that PITO would benefit from narrowing the focus of the Project to address a limited number of industrial sectors. A comprehensive study of ASEAN conducted by AUSBC/CTE recently identifies a number of sectors with apparent demand and in which the U.S. enjoys a comparative advantage. It was concluded in the design process that these sectors were suitable targets for technology promotion and assistance efforts, and that initially

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focussing the broader range of promotional efforts on U.S. businesses in these sectors made good sense. The review conducted by CTE was seen as sufficient to define the sectors and little advantage was seen in attempting to get more detailed information about these sectors.

5. Need to Prioritize and Narrow Scope of Activities

Concerns expressed during PID reviews related to the broad descriptions of PITO activities have been addressed in the PITO design. Information and referral services, particularly U.S.-based, emerged as the most important activities that PITO could undertake to increase the level of U.S.-ASEAN trade and investment. This is reflected both in the emphasis placed on the Trade and Investment Component, and in providing for U.S.-based promotional activities to be carried out by AUSBC/CTE. Combining technology promotion activities under the more general promotion activities also narrowed the PITO focus and provided economies of scale.

The suggestions made by the Review Committees with regard to the Capital Markets Component are reflected in the PITO design. Funding for this component is limited to \$200,000 and will be used to assist OPIC in the initial formation of the ASEAN Growth Fund. Financing provided by the Fund will definitely contribute to U.S. and PITO objectives to encourage U.S.-ASEAN joint-ventures.

6. Statement of Project Objectives

Considerable time was devoted at the outset of the PITO design process to developing concise statements of the Project objectives and quantifying these objectives. These objectives are stated in the Project Paper (Section III) and the Logical Framework (Annex A) and are not repeated here. PITO has been designed to establish a mechanism which is expected to continue beyond the end of the Project. Given the heavily service-oriented nature of the mechanism and the limited opportunities to generate revenues from the assistance provided, it is realistic to expect that some form of subsidy will be required to maintain the services, particularly those provided within the ASEAN countries. Potential sources of funding for these activities include the memberships of the Chambers of Commerce and Industry in the U.S. and ASEAN, ASEAN governments, and international donors.

7. Implementing Arrangements

Managing and organizing delivery of the diverse range of services provided by PITO were subjects of extensive discussions during the design process. Assigning responsibility for the majority of services under one systems management contract to

be awarded through a competitive procurement had considerable appeal, primarily because it would reduce the management workload of the Project Secretariat. It was recognized, however, that no one firm would have in-house capabilities in all the required areas and that a major portion of the work would be assigned to subcontractors. The need for the systems contractor to enter into multiple subcontracts raised concerns about the need to compromise on performance given the unlikely event that all the organizations most qualified to carry out specific PITO activities would end up on the same contractor team. Heavy reliance on subcontracting also raised concerns about the effect of overhead and other indirect costs on the PITO budget. Analysis of the cost-effectiveness of the master systems contract approach versus assigning responsibility to the Project Secretariat for managing individual grants and contracts with the most qualified organizations indicated that the master contract approach would increase the cost by 20% with no apparent increase in output. This saving is possible even after adding an additional position to the Project Secretariat to cover grant and contract administration responsibilities.

Review of past activities and discussion with ASEAN public and private sector representatives, including AUSBC and CTE, indicated that CTE has particular strengths and advantages in providing referral services and carrying out promotion activities in the U.S. These advantages do not appear to extend to efforts conducted in the ASEAN region. There was generally widespread knowledge of CTE throughout ASEAN, but its activities and effectiveness were described in either neutral or negative terms. Shortcomings cited by respondents differed but included: inappropriate country representatives; insufficient follow-up of contacts; and inadequate reliance on or knowledge of existing local and other capacities. These findings significantly influenced the approach taken in the PITO design to provide ASEAN promotion and referral services through the ASEAN section of the AUSBC.

Inventory of the capabilities of existing policy analysis centers in ASEAN confirmed that there are a large number of institutions in the region with the staff and experience required to undertake studies and, more importantly, to precipitate the policy dialogue and more widespread discussion of issues which are the real products of the PITO Policy Analysis Component. Assessments of the ability of these institutions to manage region-wide efforts and concern that selecting one ASEAN institution to serve as overall manager would be perceived as introducing a national bias led to the decision to rely on a U.S.-based organization. The East-West Center is viewed as the most appropriate organization to serve as the network manager, given its experience in fulfilling a similar role and the respect that it enjoys throughout Asia.

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PITO is an ambitious and complex project. There is much about PITO that is experimental and that will provide valuable experience for use in future trade and investment promotion efforts. Designing the Project was neither an easy nor a straightforward process. The design benefitted greatly from the comments and suggestions provided in the review of the PID, virtually all of which have been incorporated in the final design. The result is a project which is regarded to be the most appropriate and cost-effective approach to addressing the current conditions with regard to ASEAN-U.S. trade and investment relations that is possible within realistic budget levels.

ASEAN - U.S. ECONOMIC RELATIONS

The member countries of ASEAN collectively represent the most dynamic region of the world economy. While their individual economies vary dramatically in size, structure and level of development, in combination they possess considerable endowments of natural and agricultural resources, large markets, and rapidly expanding manufacturing capacity. The average annual growth rate of real gross domestic output (GDP) for the region amounted to as much as 8.8 percent in the 1970s, before dipping to an average rate of 4.5 percent (excluding Brunei) in the 1980-1987 period of worldwide economic contraction. In both periods, ASEAN's aggregate growth rate far exceeded that of nearly all countries or regions. In addition, current figures suggest that ASEAN is likely to return to the higher long-term growth levels achieved in the 1970s.

International economic relations are carried out bilaterally rather than multilaterally, and so it is important to acknowledge differences among countries. The following table provides an indication of variances in ASEAN and with Japan and the United States.

Comparative Economic Indicators: 1986

	<u>Population</u> (millions)	<u>Area</u> (1,000 sq km)	<u>GDP</u> (US\$ bil.)	<u>Per Capita</u> (US\$)
United States	241.6	9,363	4,169	17,225
Japan	121.5	372	1,959	16,124
<u>ASEAN</u>				
Brunei	0.2	6	3	15,421
Indonesia	166.9	1,919	75	451
Malaysia	16.1	330	28	1,725
Philippines	56.0	300	31	559
Singapore	2.6	1	17	6,698
Thailand	52.1	514	42	802

Note: Figures for Brunei are for 1985

Source: Asean-U.S. Initiative Report, 1989

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This table confirms that ASEAN consists of vastly different economies, ranging from the comparably small but relatively high income countries of Brunei and Singapore to the large and populous but relatively low-income nation of Indonesia, with Malaysia, the Philippines and Thailand falling somewhere in between the extremes. From an analytical standpoint, it is useful to draw a distinction between Brunei and Singapore on the one hand, and the remaining members of ASEAN on the other. Brunei and Singapore are relatively small and wealthy, with Brunei depending on oil exports and Singapore focusing on sales of services (trade, finance and transportation) and relatively advanced manufactured goods. The other ASEAN nations have traditionally relied on exports of agricultural and natural resource-intensive products, and are now in the process of taking advantage of their other principal economic endowment -- low-cost labor -- which is employed in producing and selling labor-intensive manufactures.

A. TRADE RELATIONSHIPS

The fundamental economic principle of comparative advantage establishes a strong basis for trade between the United States and ASEAN countries, with major gains from trade to be achieved by all nations involved. The foundation for these gains are differences in resource endowments and resulting comparative advantages. Collectively, ASEAN nations are rich in tropical agricultural capacity, mineral resources and large endowments of low-cost labor. The United States is endowed with economic resources for producing temperate climate agricultural goods and capital and technology-intensive manufactures, as well as advanced services.

The trade flows which are generated by these resource differences are complementary and mutually beneficial. ASEAN nations export tin, natural rubber, sugar, other tropical goods, and labor-intensive goods (textiles, handbags, electronic components and other consumer goods) to the United States, which in turn sells chemicals, transportation equipment, and electrical and mechanical machinery to members of ASEAN.

The United States is the largest bilateral trading partner of Singapore and the Philippines, whereas Japan remains the leading trading partner of Brunei, Indonesia, Malaysia, and Thailand. By 1986, the United States assumed the role previously played by Japan as the leading export market of ASEAN. In 1970, the United States accounted for 17 percent of total ASEAN exports, and this share rose to 19 percent in 1986. The share of U.S. exports in ASEAN's total imports increased from 15 percent in 1970 to 17 percent in 1986.

Turning to a U.S. perspective, of total U.S. exports, ASEAN represented a market share of 3 percent in 1970 and 4 percent in 1986. Similarly, ASEAN accounted for 3 percent of total U.S. imports in 1970 and 4 percent in 1986. This difference in relative importance is due to the large size of the U.S. economy vis a vis that of ASEAN. The combined ASEAN GDP is only about 5 percent of that of the United States. While the United States is more important to members of ASEAN than vice versa, the ASEAN region is currently and prospectively very important to the United States, especially as the United States seeks to correct its structural trade deficit.

In 1970, U.S. trade with ASEAN countries was roughly in balance, with U.S. exports and imports both amounting to about \$1.1 billion. By 1986, U.S. exports to the region expanded nearly eightfold, to \$8.4 billion. However, U.S. imports from the region rose even faster, to \$15.2 billion, resulting in a U.S. trade deficit of \$6.8 billion in 1986.

The primary reason for this trend has been the rapid growth of ASEAN-produced manufactured goods to the United States. In 1970, 84.3 percent of total U.S. imports from ASEAN were in the form of primary commodities (raw materials and agricultural products), and only 14.4 percent of U.S. imports were manufactures. By 1986, this composition had almost been reversed -- as much as 63.6 percent of U.S. imports were manufactured goods, and only 34.9 percent were primary commodities. Broadly speaking, one could conclude that if the traditional commodity composition of U.S.-ASEAN trade had remained about the same as that in 1970, overall trade would be roughly in balance. From another perspective, it has been U.S. absorption of manufactured goods from the region that is basically responsible for the growing structural trade deficit of the United States in its trade with ASEAN nations.

Several important characteristics of ASEAN-U.S. trade can be drawn from current structures and trends to support the rationale and goals of the PITO project.

1. The bilateral trading relationships between members of ASEAN and the United States are of critical importance to the development and economic transformation aspirations of ASEAN countries. The United States imports not only traditional commodities but also manufactured goods that embody higher levels of development. By comparison, Japan purchases raw materials from ASEAN and sells manufactured goods to ASEAN. Primary commodities account for as much as 94 percent of ASEAN's exports to Japan, compared to only 57 percent of ASEAN's exports to the United States.

2. As a corollary to the point made above, retaining or even increasing access to U.S. markets for manufactures are in the vital economic interest of ASEAN nations.
3. By all objective standards, the United States provides relatively free access to the U.S. market, in comparison to Japan and the European Community. However, this degree of access is affected by the real or perceived threat of growing protectionism in the United States. The real threat is spawned by the chronic U.S. trade deficit and by increasing charges by U.S. firms that they face unfair trading practices overseas. The perceived threat is the widespread attitude within ASEAN that the United States is closing its markets whereas Japan is expanding market access. This is due in part to the fact that trade policy decision making in the United States is pursued openly and vocally. Actual and threatened U.S. trade policy actions (removal of GSP eligibility, "Super 301" cases, U.S. rice policy, countervailing duty imposition, retaliation against intellectual property rights abuses, etc.) have collectively created an aura of protectionist sentiment, even though these actions, even if implemented, would affect only a negligible portion of the overall trading relationships.
4. To a certain degree, current tensions in trade policy discussions and negotiations result from the "triangular" trade flows and surpluses/deficits among ASEAN, the United States and Japan. To be specific, Japan not only runs a large trade surplus in its trade with the United States, but also a surplus vis a vis ASEAN countries. These latter nations in turn must balance their overall trade, and look to U.S. markets to accomplish this goal. The United States therefore sustains both direct and indirect deficits.
5. While trade policy problems can and should be addressed through productive dialogue and direct resolution, the ultimate solution lies in improving bilateral trade balances. From an economic standpoint, an individual nation should not seek to achieve balanced trade with each of its trading partners, but rather should focus on its overall balance. However, a point can be reached in which bilateral flows are sufficiently out of balance to indicate policy-related distortions and, more importantly, to instigate protectionist sentiments and actions in the deficit country. This trend can be clearly observed in the United States in its trading relationships with Japan, Taiwan and South Korea, and the trend is now spreading to other nations. The trend would

be deterred or even eliminated in the case of ASEAN if ASEAN firms were successful in diversifying its export markets of manufactures, and/or if U.S. firms were able to expand their exports to ASEAN markets in such a way as to reduce the U.S. trade deficit with the region. Export diversification can relate to expanded ASEAN sales to Japan, the European Community, and also to other member countries in ASEAN, so long as it is based on sound economic/business considerations. This obviously does not preclude the possibility of increased exports to the United States, which can and should proceed over time.

6. Expanding private sector trade flows between ASEAN and the United States on the basis of market forces and true comparative advantage serves the interest of all nations. Achieving this goal requires action on two fronts: (1) Undertaking efforts to promote trade; and (2) Undertaking efforts to remove existing constraints to trade. Constraints can be policy related, but also include such problems as lack of adequate information or even interest by U.S. firms, or lack of knowledge of U.S. trade policies, programs, and regulations by ASEAN firms. The two-pronged but inter-related actions of positive trade promotion and constraint removal constitute major initiatives of the PITO project.

B. INVESTMENT RELATIONSHIPS

While often strongly inter-related, the processes of trade and investment are distinctly different, and it is sometimes dangerous to refer to trade and investment as interchangeable. Private sector trade represents the exchange of goods or services between or within countries. Investment consists of the employment of resources, financial and other, for the purpose of earning a return or profit on the capital employed. Investments may or may not be undertaken for the purpose of producing goods and services for international trade, since many investments are made for serving local markets.

Acknowledging the caveat noted above, it is appropriate to consider trade and investment as inter-related activities that exist on a continuum of private business transactions and relationships. That is, trade often precedes investment, since firms might begin with arms-length trade deals and eventually engage in direct or portfolio investments in those or related ventures. Similarly, investments can be made to support or to increase trade transactions. From a national perspective, countries need to develop exports in order to finance imports and

other international flows, and they need private investment to increase their capital stock and productive capacity.

Turning to ASEAN-U.S. investment relations, unlike trade, in which flows of goods and services move in both directions, investment flows have by-and-large moved only from the United States to ASEAN member countries. U.S. companies have provided capital, technology, management skills and marketing capabilities to their affiliates in ASEAN, and in return have achieved generally profitable returns. U.S. investment in the region has long been an important component in bilateral business relationships, but its relative importance has been declining recently. In fact, overall foreign direct investment in ASEAN has in recent years represented only a small portion (about 5 percent) of total investment activity. The following table indicates the level of U.S. investment in each ASEAN economy.

<u>U.S. Direct Investment Position in ASEAN</u>			
	(U.S. Millions)		
	<u>1966</u>	<u>1977</u>	<u>1987</u>
Brunei	0	5	-28 ^{a/}
Indonesia	106	984	3,929
Malaysia	57	464	1,111
Philippines	486	837	1,211
Singapore	30	516	2,521
Thailand	51	237	1,282

a/ 1986

Source: U.S. Department of Commerce

As indicated by this table, U.S. direct investment in the region has grown considerably over the past two decades, although from a very low base. However, total U.S. investment of some \$10 billion in 1986 (and 1987) accounted for only about 4 percent of total U.S. foreign investment (\$260 billion in 1986).

According to official statistics, Japanese investment in ASEAN (\$14 billion) exceeds U.S. direct investment, but this figure is misleading because of statistical accounting procedures. The U.S. figure is understated by nearly \$17 billion for production-sharing oil investment arrangements in Indonesia. In addition, the Japanese figure is based on investment approvals rather than on

implemented projects, thereby overstating Japanese investments.

Notwithstanding the fact that the United States is probably the largest source of foreign direct investment in the ASEAN region, the Japanese are appropriately considered the most active investors in ASEAN. This is because of several factors. Japanese firms are active and highly visible in many sectors, especially manufacturing, and Japanese products are most visible on store shelves. American firms tend to be concentrated in a very few sectors, especially oil production and manufacturing for export. In addition, the U.S. presence is dominated by a select number of large multinational firms, whereas much larger numbers of Japanese firms, including small and medium enterprises (SMEs) are active.

From a sectoral standpoint, U.S. firms engaged in the petroleum sector account for over three-fourths of total U.S. foreign investment in Indonesia, over one half of the total in Malaysia and Thailand, and about one fourth of the total in Singapore. Regionally, the petroleum sector represented about 55 percent of total U.S. direct investment in 1987. Manufacturing accounted for about 29 percent, the majority of which was in electrical machinery and chemicals. The remaining 16 percent of U.S. investment was in trade and banking (primarily in Singapore and the Philippines) and in other financial services (Indonesia). Investments in manufacturing have grown considerably in recent years, but remain small in comparison to both Japanese investment and the economic potential of the region.

U.S. investment in ASEAN is clearly dominated by a small set of "Fortune 100" U.S. multinationals. The large number of small and medium sized U.S. firms (often very large by ASEAN standards) have yet to discover ASEAN either as a market for exports or as a site for profitable investments. To a large extent this is because of a lack of awareness or interest on their part, given the large size of the U.S. market and the relative ease of doing business there. Another often cited factor is the cost and "nuisance" of developing a permanent business presence in ASEAN countries, which is critically important for success. U.S. investors also tend to dislike dealing with "red tape" and complex bureaucracies which are often prevalent in the region. Finally, smaller scale U.S. firms do not have easy access to many of the support services (financial, advisory, tax and accounting, etc.) that are often provided to companies from other nations. For example, smaller Japanese firms often retain ties with large trading companies, which in turn provide financing, marketing and information.

The policy-related and other impediments to increased U.S. investment in ASEAN are described in Annex F. However, it is clear that the size and depth of U.S. investment is well below its potential and desired level. In every country visited by the PITO

design team, those interviewed from the private and public sectors alike were unanimous in voicing their desire for a greater U.S. investment presence. There was also widespread support for the PITO project, early in its initial phase, to support a systematic analysis to determine with some precision the actual reasons behind the relative lack of interest by U.S. investors.

C. FINANCIAL, SERVICES, AND TECHNOLOGY FLOWS

To a large degree, the transmission of financial and other services, as well as technology flows, are often embodied in trade and investment activities. For example, an investment venture in manufacturing typically includes a package of financing, management expertise, marketing, and technology provided by the host firm to its affiliate or joint venture.

Throughout the region, the design team was told by those interviewed that ASEAN nations prefer U.S. investments to those from other countries because U.S. investment "packages" tend to be more attractive. Several points were cited.

1. U.S. investors tend to bring in more equity capital. By comparison, Asian investors (Japanese, Korean, Hong Kong, Taiwanese) generally bring in less capital, and therefore must borrow locally to finance their operations, thereby soaking up funds and "crowding out" local investors.
2. U.S. investors generally are more willing to share technologies, at least with their local partners. Others, particularly the Japanese, closely guard their technologies. On the other hand, the Japanese investors with proprietary technologies have been able to successfully structure joint ventures, whereas U.S. firms often require 100 percent U.S. ownership, which in turn may render a venture inviable.
3. U.S. investors tend to be better corporate "citizens." They generally have a better record in employee compensation and relations, in paying taxes, and in protecting the environment. In addition, U.S. firms are less likely to be "fly-by-night" operations which seek to skirt rules and regulations and which mysteriously disappear when bills come due.

For these and other reasons, U.S. investment is generally sought out because of the corollary benefits it brings to the table. To a certain extent the PITO Project should promote private U.S. investment in ASEAN for the very purpose of providing flows of embodied capital, technology and other business services.

In addition to trade and investment in goods, economies also possess separate sectors which provide technology, financial and other services. In this area, U.S. involvement in the region is extremely limited. The financial services sector is limited largely to the activities of a highly select number of U.S. multinational banks. These commercial banks operate branches to service U.S. multinationals and to manage local loan portfolios. Efforts to engage in other financial services (insurance, investment banking, trust operations, leasing, etc.) often encounter a series of unsurmountable barriers to entry. These barriers range from outright denial of market access to conditions (e.g., required deposits, operational limitations, etc.) which proscribe profitable operations. A summary review of service sector barriers in the ASEAN region is provided in the ASEAN-U.S. Initiative Report.

The stated rationale for restrictions against foreign (U.S. and other) service providers is that these firms possess financial and management resources that vastly exceed those of indigenous firms, and therefore the local industry would be quickly driven out of business by foreign firms. Another reason which is less vocally stated but generally acknowledged is that financial services are often provided through relationships which are not transparent and not conducted on an "arms length" basis.

Regardless of the purpose and cause of restrictions on service flows and investments, the local economy is ironically the ultimate "loser," since the service sectors remain inefficient and costly, and their development is retarded because local firms are not subjected to competition. In most countries throughout East Asia, the manufacturing sectors are far ahead of the service sectors in terms of efficiency and competitiveness. In many cases, development of manufacturing and industrialization is inhibited by a lack of access to adequate financial services.

U.S. firms are not very active in ASEAN in other service areas. These include tourism, communications, information services, entertainment, transportation, and advertising. Recent gains in some countries have been achieved in the area of franchising, particularly of retail food outlets. Over time, U.S. firms should be encouraged to view ASEAN as a major growth area for their activities. This is one area in which the United States holds a major comparative advantage, and in which ASEAN economies stand to achieve major benefits.

Technology flows and needs are generally dictated by an economy's level of development. The level of industrialization and economic sophistication has risen rapidly throughout ASEAN, although differences among individual members do remain. One can appropriately conclude that each country possesses the capacity to

absorb advanced technologies and use them productively in at least several sectoral or subsectoral areas.

The majority of public and private sector leaders interviewed by the design team expressed a reasonable and logical stance toward technology transfer strategy. All nations and private firms in them seek increased access to U.S. technologies. In many cases the majority of production processes (especially for manufactured goods) employ mature technologies, and so highly advanced and unproven technologies are not desired. In other areas, new technologies are needed to improve the quality of products produced (e.g., processed foods, consumer goods, etc.) or the quantity or efficiency of output (agribusiness). In still other areas such as process chemicals, environmental protection, hazardous waste management and pharmaceutical, advanced technologies are required to provide the best and safest inputs possible.

In each of these areas, U.S. technologies could play a highly positive role in the ASEAN region. The challenge is to develop mechanisms to encourage technology flows on a sound business basis. The issue of U.S. technology transfers to ASEAN has been driven by the highly sensitive and politicized debate over protection of intellectual property rights. Abuses of patent and copyright rights in the region have led to high profile debates and arguments involving the most senior officials. According to U.S. policymakers interviewed by the design team, a great deal of progress has been achieved in revising intellectual property rights laws in most countries, but further work is needed, particularly in enforcement.

This progress has been attained at some cost regarding attitudes toward the United States, which has "led the fight" on this issue. In many areas the negotiations have created an active or residual level of resentment among private and public sector leaders in ASEAN. It will take time for this resentment to recede. However, this process could be accelerated through an increase in the flow of U.S. technologies to countries in the region, providing evidence that implementing appropriate policies bears rewards. Therefore, the PITO project should seek to encourage such flows of productive technologies.

D. ASSESSMENT OF COMPARATIVE ADVANTAGES

As noted previously in this report, any nation's comparative advantage is largely a function of its factor endowments and consequent cost efficiencies. A country sells on international markets those goods and services that meet or exceed world market standards for quality and cost. At any point in time, an economy's comparative advantage is relatively fixed as a function of its

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current resource base and productive capacity. However, relative advantages are dynamic rather than static over time, reflecting changes in endowments and efficiencies.

Through the 1960s, members of ASEAN were largely natural resource based commodities -- oil, tin, natural rubber, palm oil, wood, and other mineral and tropical agricultural products. Due to its geographic position and lack of resources, Singapore alone diverged from this trend, focusing on entrepot activities (shipping, trade, oil refining, etc.) and initiating consumer goods manufacturing.

Over time, private firms began to use the region's untapped resource -- abundant labor. By the mid-1970s, Thailand and the Philippines emerged as competitive in light manufactures of labor-intensive goods, such as textiles and clothing, leather goods, footwear and cork and wood manufactures. At this stage, the other labor abundant countries of Malaysia and Indonesia remained largely dependent on exports of primary products. Singapore had not only become competitive in light manufactures such as clothing and wood products, but also goods requiring more sophisticated production, including chemicals and electrical machinery.

The development of labor-intensive industries in ASEAN was interrupted temporarily in the early 1980s due to conditions of worldwide economic contraction and financial instability. Markets stagnated and international investors pulled back to their home countries and generally delayed plans to increase their productive capacity.

The trend toward ASEAN nations becoming bases for labor-intensive manufacturing has resumed in the late 1980s.

Malaysia has diversified its export pattern, concentrating on electrical and electronic equipment, but also including textiles, garments, rubber manufactures and wood products.

Thailand has become a base for a growing range of light manufactures, including traditional items such as clothing and electronics, but moving rapidly into sophisticated products such as chemicals and engineered products. Thailand is also increasingly competitive in a wide range of processed agricultural and fishery products, which are gaining growing acceptance in developed country markets.

Due in part to major policy changes enacted over the past five years, Indonesia is witnessing a rapid expansion of nontraditional exports. In addition to standard "export

platform" manufactures based on low-cost labor, Indonesia is specializing in resource-intensive manufactures, such as wood products and processed agricultural goods.

Singapore continues to focus its strategy in moving "upstream" to more sophisticated manufactures. These include chemicals, organic and inorganic compounds, and technology-intensive electrical and non-electrical machinery and equipment.

Because of its abundance of oil reserves and relative lack of labor resources, Brunei is alone among ASEAN economies in not engaging in a transformation toward industrial manufacturing. However, Brunei is taking steps to diversify economy to provide non-oil sources of income and foreign exchange earnings.

The ASEAN region is clearly experiencing a "take-off" of industrial manufacturing. Most countries are now in a phase of development in which emphasis is being placed on increasing the quality of manufactured goods. This is similar to periods previously witnessed in Japan, South Korea and Taiwan, and is fully consistent with an appropriate strategy of "moving up the ladder" toward increasingly sophisticated production patterns. Unlike the "newly industrializing countries - NICs" of East Asia, individual ASEAN economies also possess considerable endowments of resources, such as oil, other minerals, and agricultural bases, which can allow for a wider range of comparative advantages to emerge. As a result, most ASEAN nations have the potential for developing more diversified production patterns than the East Asian NICs. This in turn implies that ASEAN presents a broader range of productive profitmaking opportunities to the U.S. business community.

POTENTIAL SECTORAL EMPHASES AND TARGETS

In response to suggestions made during review of the PID, the design team assessed the usefulness of applying a sectoral approach for the Project's trade and investment promotion component as a way of focusing scarce resources and avoiding a "shot gun" approach. The team was asked to assess the sectoral opportunities identified in a recent study produced by the U.S.-ASEAN Center for Technology Exchange (CTE) provided a starting point for this assessment. The CTE analysis provided a detailed description of country-specific sectoral opportunities for U.S.-ASEAN business cooperation.

A. SECTORAL EMPHASIS

The CTE study researchers applied the following criteria to determine sectoral opportunities in ASEAN.

1. Recent growth rates and projections in the sector and in related areas having an impact on the sector.
2. Rate of growth and amount of foreign and domestic investment.
3. Increases in imports and exports in the sector, sub-sectors, and in related sectors which might indicate growth potential.
4. Technical needs of local companies.
5. U.S. competitive advantages, technical expertise, and expressed interest in trade and investment with ASEAN.
6. Infrastructure.
7. Relative advantages of producing in ASEAN.
8. Government policies which might affect the sector.
9. Identified need for assistance which might be provided by a government agency or non-governmental organization to promote trade and investment.

On the basis of these criteria the CTE study team identified the following sectors as holding the greatest number of opportunities for U.S. trade and investment throughout the region.

- Agribusiness, including agrochemicals, biotechnology, food processing, aquaculture and food processing machinery.
- Energy conservation and management, including cogeneration and private power, and energy conservation in buildings and factories.
- Environmental protection, including toxic waste management.
- Machinery and machine tools.
- Packaging materials and processes.
- Electronics and information technology, including electronics assembly.

The CTE study explicitly excluded sectors in which U.S. firms already have gained a major foothold in the region, either as exporters of U.S. products or as investors. As noted above, the CTE study identifies sectoral opportunities for each member country of ASEAN. With some variations by country, the same general pattern emerges in each country.

The PITO project team reviewed this sectoral opportunity analysis, and reached the following conclusions.

1. There is nothing intrinsically wrong with the sectors identified. In each sector U.S. industry possesses comparative advantages in technology, quality, and/or management. In addition, the sectors coincide with felt needs in ASEAN economies. Therefore, each represents a potential "niche" for U.S. trade and investment in the region.
2. With some obvious exceptions, most sectors relate more to potential U.S. investment in the region rather than exports to the region. In fact, most are oriented toward either import substitution or export, rather than for continuous import relationships. For example, the US&FCS marketing report for the Philippines identifies the following as "best prospects for immediate sales to the Philippines:" Industrial chemicals, telecommunications equipment, pumps, valves and compressors, electric power equipment, metalworking and machine tool equipment, textile machinery, and medical equipment. To be sure, some of these areas coincide with the CTE list of opportunities, but the latter is much more oriented

toward direct and continuous sales. In short, for better or worse, the CTE approach intermingles trade with investment, which to a certain extent confuses the strategic objective of developing a list of sectoral opportunities.

3. While the CTE list does represent a targeting effort, the list of sectors covers a considerable area of economic activities, in both the agricultural and industrial sectors. CTE is now concentrating its efforts on the energy and environmental protection sectors.
4. By excluding sectors in which U.S. firms already have a presence, the CTE list explicitly eliminates areas of proven U.S. interest and capability in the region. To be sure, this exercise was intended to surface new areas of opportunities. In fact, in many areas identified, the U.S. industry consists of "relatively" small firms rather than corporate giants. These smaller firms have heretofore expressed only limited interest in ASEAN. If the United States were to develop an effective industrial targeting strategy, it might make more sense to focus on areas where U.S. "giants" (currently or prospectively) would move in to a country, establish a firm footing and presence, and then bring in its suppliers and downstream servicing firms. This strategy would concentrate on such sectors as telecommunications, computers, transport equipment, even appliances. Such a strategy might revolve around a large firm entering or winning major procurement contracts, rather than "promoting" smaller firms which would operate on an individual basis. An often heard comment is that large U.S. corporations neither need nor seek assistance from U.S. government programs. While this is true to a certain extent, U.S. firms are not winning major procurement contracts in the region. The principle reason cited is predatory financing terms offered by competitors. In addition, many large firms (aircraft, telecommunications, power generation, etc.) go to the U.S. Eximbank for financing of "big ticket" contracts.
5. One sector that is generally missing from the CTE list is services -- finance, travel and tourism, data processing and information, insurance and entertainment. This area is subject to major barriers to entry, but some barriers are being dismantled, and U.S. firms enjoy a major comparative advantage and could establish a strong foothold over time.

With these caveats in mind, the design team took no major exception to the CTE study conclusions, and in fact found merit in seeking to narrow the scope and set priorities for any proposed promotion program. However, our important conclusion is that the issue of an industry focus depends strongly on precisely what the promotion program is intended to achieve. That is, if promotion is exclusively or primarily "reactive" in nature -- responding to exporter and investor inquiries or interest and assisting those firms -- then a sectoral focus is neither necessary nor desirable. In other words, no opportunity that emerges should be ignored because it does not fit into a sectoral strategy. The promotion program should rather provide the best possible information and assistance to any firm which expresses interest.

If, on the other hand, the promotion activity is to be "proactive" as well as "reactive," and purposely elicit interest by U.S. firms, then a sectoral approach is both fitting and necessary. In the case of CTE, for example, the sectoral targeting exercise is a direct response to complaints that CTE's previous promotional activities were excessively broad and lacked focus and "follow through." Any effective trade or investment promotion agency spends considerable time and effort identifying and pursuing specific sectoral opportunities.

In the view of the design team, the PITO project should initially focus on developing and implementing a solid "reactive" promotion capability. This involves establishing an effective network to collect and disseminate information, preparing promotional brochures and other forms of communication and creating an effective referral system for firms seeking further information and assistance.

Once this capability has been put into place, "proactive" promotion activities can begin along sectoral lines. This avoids the dangers and problems faced by many promotion organizations which rush headlong into "promotion" -- meaning marketing -- before their follow-through capacities are developed.

TRADE AND INVESTMENT PROMOTION PROGRAMS

A. CURRENT PROMOTION SYSTEMS IN ASEAN

MALAYSIA

At the end of 1987, the United States at U.S.\$316 million ranked 4th among foreign investors in Malaysia (as measured by fixed assets of approved ventures), following Japan (\$652 million), Singapore (\$454 million), and the United Kingdom (\$370 million). Among major U.S. investors in the country were Exxon, Motorola, Goodyear, Union Carbide, RCA, Texas Instruments, Hewlett-Packard, Dow Chemicals, Colgate Palmolive, Monsanto, National Semiconductor, and Eastman Kodak.

The Malaysian Industrial Development Authority (MIDA) is the division of the Malaysian Ministry of Trade and Industry responsible for investment promotion. MIDA's major functions include advising the Minister of Trade and Industry on development policy and strategy; coordinating national development programs with those of State Economic Development Corporations (SEDCs) within the country; advising potential investors in the manufacturing sector; and evaluating applications for manufacturing licenses, incentives, tariff protection, and duty exemption.

MIDA's Director of the Industrial Promotion Division emphasized in an interview with the design team that PITO should stress action programs, rather than studies. (He referred to the recent AUI study as a negative example.) His view is that the focus of the program should be on medium-sized U.S. companies, as these are the potential investors that agencies like MIDA find hard to reach. According to the Director, the AIJV (ASEAN Industrial Joint Venture scheme) offers the best scope for ASEAN investment. Accordingly, PITO could fund a series of roundtables for carefully selected and qualified U.S. companies in specific sectors. ASEAN representatives at these meetings could present both (a) the potential for AIJV investment projects, and (b) the potential of ASEAN as an offshore base for more traditional manufacturing or other ventures. The EEC has appointed an ASEAN consultant who develops proposals for specific products or sectors for AIJV investment. When cleared by the ASEAN Committee on Industry, Minerals and Energy (COIME), these opportunities can then be presented to potential European investors on a pre-approved basis.

The idea of stationing investor-country representatives in ASEAN to advise potential investors was vigorously supported by the Director. For example, the West German advisor in MIDA is viewed as having been particularly effective -- West Germany has grown from being Malaysia's 16th largest investor to number 7 since the

beginning of his assignment. A key factor in the success of this program, is that the German advisor remains closely tied to his sponsoring agency in West Germany and so can effectively channel trade and investment inquiries in both directions. A similar British scheme did not work as well because the advisor assigned to MIDA lacked such linkages back in the U.K.

MIDA administers a wide range of investment incentives. The principal incentives for the manufacturing, agricultural and tourism sectors are contained in the Promotion of Investments Act of 1986 and the Income Tax Act of 1967. These incentives are designed to grant relief from taxes in various forms. The taxes applied to companies in Malaysia are in the form of income tax of 40 percent and development tax of 5 percent. Companies given pioneer status are exempted from the payment of these taxes. In the case of the other incentives, the benefits are in the form of allowances.

Pioneer status, i.e., exemption from income and development taxes, may be granted to projects falling within an extensive list of promoted activities and products maintained by the Ministry of Trade and Industry. The grant is typically for a period of five years from the start of production, with the possibility for a further five-year extension under certain conditions. The Export Credit Refinancing Scheme offers concessionary financing to exporters, a practice deemed by the United States to be unfair and subject to countervailing duty action. Allowances include the Investment Tax Allowance (up to 100 percent of qualifying capital expenditures), tax abatements to encourage certain investments, accelerated depreciation, reinvestment allowance, export abatements and allowances, and R&D and training incentives.

SINGAPORE

The Singapore Economic Development Board (EDB) has had primary responsibility for investment promotion in Singapore since 1965. The EDB has seven headquarters divisions. The Industry Development division has six specialized industry groups, focusing on Chemicals, Light Industries, Manufacturing Systems, Engineering Systems, Electronic Systems, Electronic Components, and Industrial Facilities, plus a Japan Operations section. The Services Promotion Division has dedicated groups covering Business Services and Technical Services. The other headquarters divisions of the EDB are the Small and Medium Enterprise Division, Planning Division, Marketing Support Division, Manpower Development Division, and Administration Division.

The EDB has 17 overseas offices through which it conducts its foreign investment promotion activities. These include seven U.S.

offices (Boston, Chicago, Dallas, Los Angeles, New York, San Francisco, and Washington, D.C.), six European offices, and four Asian offices (3 of which are in Japan). The EDB officers interviewed for the PITO project expressed that the Board's promotion efforts are already very effective. They explained that the EDB officers overseas were beyond the point of dealing with chambers of commerce and other broad groups, and instead were able to target particular companies. They could see little benefit to Singapore from participating in regional promotional activities, unless they were very tightly focused. Nevertheless, Singapore would probably agree to participate in a spirit of regional cooperation.

The Trade Development Board of Singapore (TDB) is a statutory body under the Ministry of Trade and Industry, like the EDB. In its promotional role, beyond the TradeNet system and other activities described earlier in this report, the TDB also provides a sophisticated export information service to Singapore companies. In addition to an extensive library of printed materials, the Board subscribes to various electronic information services. On a more proactive level, the TDB has formed its own venture development company to invest in projects that may help to promote exports from Singapore and/or Singapore's status as a regional trading center.

The TDB officials interviewed by the design team indicated that the board has a considerable head start on its ASEAN neighbors in trade promotion, especially regarding trading with Japan. While, Singapore would not wish to let other countries take advantage of its hard-won experience, it would be supportive of regional programs.

THAILAND

The Office of the Board of Investment (OBOI) implements the investment promotion policies and strategies of the BOI. OBOI is under the Office of the Prime Minister (who is Chairman of the BOI itself) and is headed by a Secretary General. In addition to an administrative and coordinating section, the office of the Secretary, which also evaluates small investments and handles foreign affairs matters, OBOI has seven operating divisions.

The Planning Division develops investment plans and promotion policies, publishes investment statistics, prepares BOI activity reports, and monitors technology transfer. The Project Development Division identifies investment opportunities and conducts research on ways to attract investor interest.

The Information and Promotion Services Division manages publicity, public relations, and information dissemination functions, and hosts foreign visitors. The Project Analysis Division makes detailed appraisals of applications for incentives, considers duty reductions, exemptions, rebates, and tariff protection.

The Incentive Supervision Division ensures that incentives and benefits are properly used, and recommends import duty adjustments based on availability of locally produced alternatives. Finally, the Project Control Division monitors investors' operations to ensure compliance with conditions of incentives, such as capitalization, capacity, sourcing, product standards, environmental protection, and export performance. In addition to these in-country operations, the OBOI oversees the BOI's four permanent overseas promotion offices, in New York, Tokyo, Sydney and Frankfurt.

B. U.S. GOVERNMENT PROMOTIONAL SERVICES

A key objective of the PITO project is to ensure that its promotional activities enhance current U.S. Government (USG) promotional efforts in the area. Special efforts have been made in the design of this project to ensure that the planned activities do not duplicate or interfere with on-going or planned USG promotional services. In order to achieve this objective, a review of USG promotional activities in the ASEAN region was conducted. The trade and investment promotion component has been designed, taking this review into account, as well as subsequent analysis of where needs are not currently being met and where current USG activities need additional resources. A synopsis of this review is provided below.

1. U.S. Agency for International Development

USAID Missions in Indonesia and Thailand have implemented a number of investment promotion projects in the past, and most of these projects have been completed. Other than these efforts, the country-based trade and investment promotion activities of AID for the ASEAN region are for the most part in a formative stage. Planned projects reflect AID's interest in private sector development support. At the regional level, the only major trade and investment activity has been AID funding of the U.S.-ASEAN Center for Technology Exchange, an organization dedicated to providing information on commercially viable technology transfers between the United States and ASEAN economies.

Missions in Thailand and Indonesia have relatively large projects in the pipeline, and the Philippines Mission is planning to develop a project. In addition to these larger multi-year programs, AID has provided some funding through other programs to support short-term technical assistance through organizations such as Technonet. In sum, PITO will probably be the first major AID project in the ASEAN region with a major trade and investment promotion component, but as most of the bilateral missions will be establishing trade and investment programs, the PITO project's design must take into account these expected activities.

AID-Washington

The Agency for International Development provided an initial grant of \$1 million in 1984, to U.S.-ASEAN Center for Technology Exchange and two smaller interim grants in 1988-89 to enable CTE to re-orient its program. Since CTE's inception, AID funds have provided about one-third of CTE's total funding, with the remainder coming from private cash and in-kind contributions.

CTE's primary objective is to promote ASEAN access to U.S. technology. Its activities to achieve this objective have changed over time. Initially, CTE primarily organized seminars in the ASEAN region to provide information on U.S. technologies relevant for the ASEAN environment. These seminars provided information on a wide range of industries from aquaculture to plastics. CTE also provided training programs, organized exchanges and sponsored several specialized missions.

Most private and public sector leaders interviewed by the design team volunteered that CTE did not effectively promote U.S. technology nor successfully transfer technology to the ASEAN region. Part of the problem was that CTE attempted to provide information on too broad a range of industries. CTE has recently attempted to narrow its focus and to bring a greater market-driven orientation to its activities. According to those familiar with these new programs, however, it is not clear whether this more focused approach is having better success.

USAID/Indonesia

A relatively large trade and investment promotion program entitled "Trade and Technology" is reaching the final stages of project development. Its primary objective is to improve the capabilities of Indonesian and U.S. official institutions to promote the exchange of technology, trade and investment between the U.S. and Indonesia. In addition, the project is designed to increase the amount of technologically-driven commercial exchange through project-financed direct promotional activities.

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The Trade and Technology Project is tentatively funded at \$25 million over the life of the project. The majority of these resources will be used to provide technical and commodity assistance to GOI and USG agencies, including the Ministry of Science and Technology, the GOI ministry most involved in technology commercialization, BKPM, the GOI investment promotion agency, and to the local office of the U.S. & FCS. Most of the technical assistance will be provided in the form of long-term advisors to these institutions. In addition, about one third of project resources will be used for general trade and investment promotional activities, including seminars, research and exchanges; all to be administered by the project manager.

USAID/Philippines

No trade and investment promotion program is currently in operation or is expected to be established within the next year or two. The Mission does plan to establish such a program, but its development is at a most preliminary stage. Due to this lack of AID-sponsored, in-country trade and investment promotion activities, Mission officers expressed considerable interest in buying-into the PITO project to offer some AID trade and investment activities in the Philippines.

USAID/Thailand

USAID/Thailand is developing a large, \$25 million, five-year trade and investment project. This project recognizes the rapidly advancing level of economic development in Thailand. The project is built around the establishment of a permanent, eventually self-financing institution designed to broaden and deepen U.S.-Thai business relations as well as helping Thailand diversify its trade and investment patterns.

The proposed project comprises establishing the Joint U.S.-Thai Business Foundation (JUST Business) and a Business Service Support Center. USAID funding is set for \$24.5 million with the remaining \$8.5 million expected to come from private sector contributions. It is planned that JUST Business will serve as a focal point for private sector related policy discussions with both governments, provide information to U.S. and Thai businesses on conditions and opportunities in different markets, support the local Board of Investment and provide a range of technical assistance to U.S. and Thai businesses.

2. Trade and Development Program (TDP)

The Trade and Development Program supports developing country economic development while promoting U.S. exports through financing

feasibility studies of large-scale projects by U.S. firms. It is expected that by conducting these feasibility studies which will lay out project plans along U.S. standards specifications, the project will procure principally U.S. goods and/or hire U.S. contractors to build and implement the projects.

TDP operates two primary trade promotion programs, one for U.S. firms and the other for developing country governments. In the former, U.S. firms can receive a reimbursable grant (an interest free loan) to finance a feasibility study for a project it is interested in pursuing in a developing country. The latter provides a grant to foreign official institutions to hire U.S. firms to conduct feasibility studies on large scale-projects. In addition to these activities, TDP also hires firms to conduct pre-feasibility studies to develop potential projects and conducts seminars to inform U.S. firms about opportunities in developing countries as well as promote U.S. products and technology in developing countries.

In addition to its trade promotion activities, TDP also operates an Investor Assistance Program (IAP), which is designed to assist U.S. companies which seek to expand operations overseas. If a company files an application for assistance and meets certain criteria, it can obtain TDP financial assistance in preparing a feasibility study. TDP's assistance is in the form of a no-interest loan for four years. According to the TDP administrator of the IAP, very little interest has been expressed by U.S. firms interested in ventures in the ASEAN region. Most of TDP's activity under the IAP program has been in Africa.

Currently, TDP has no physical presence in the ASEAN region. It formerly maintained an office in Hong Kong, but this office was closed in 1987. Accordingly, all of TDP's work in ASEAN is administered in Washington. TDP personnel collaborate closely with Commercial Counselors attached to U.S. embassies throughout the region.

3. Overseas Private Investment Corporation (OPIC)

OPIC is a self-sustaining U.S. government agency whose primary purpose is to promote economic growth in developing countries by supporting U.S. investment in those nations. This support is provided through two principal programs: (1) insuring investment against certain political risks, and (2) financing U.S. investment through direct loans and loan guarantees. The core of OPIC's activities is still political risk insurance, but its financing activities are expanding, partly because of the substantial surpluses generated by the insurance program.

One aspect of this expanding finance program is a plan to establish a series of regional equity growth funds to foster capital markets in developing countries and to provide a source of equity capital for projects with strong U.S. linkages, either through ownership, trade or licensing agreements. The first of these funds was recently established for Africa, and OPIC is in the midst of preparing plans for an ASEAN Growth Fund which the PITO Project may support directly. In addition to these two funds, OPIC has plans to develop two growth funds in the Caribbean region.

Apart from the proposed growth fund for the ASEAN region, OPIC has no specific programs for the ASEAN region, and has no physical presence in the region. OPIC is, however, active in the area with its regular insurance and financing programs.

4. U.S. Export-Import Bank (EXIM Bank)

The EXIM bank supports U.S. exports by providing direct and guaranteed trade financing at interest rates and/or terms more attractive than the buyer could receive from private institutions. EXIM provides financing throughout the world except to countries with extremely poor repayment records and those with whom the USG has poor relations. All ASEAN countries are eligible for EXIM financing.

Like OPIC, EXIM has no physical presence in the ASEAN region, but is active. Although EXIM bank rates are more attractive than normal commercial rates, the rates and terms provided by the official export lending programs of other industrial nations to developing countries tend to be better. Assistance programs of many countries provide highly subsidized lending for procuring goods from the donor countries. Given the rapid economic growth of the ASEAN nations, many donor countries have targeted the area for trade expansion through subsidized lending. The lack of more competitive export financing has been cited as a major obstacle to improving U.S. export performance in the region. Several persons interviewed also noted that small and medium scale U.S. firms have difficulty in gaining access to EXIM financing for their customers.

5. U.S. and Foreign Commercial Service (US&FCS)

The US&FCS is the primary USG agency providing information about commercial opportunities in foreign countries for U.S. businesses. The US&FCS has officers throughout the world providing information to local business and government officials about U.S. firms and products, collecting market information and serving as a focal point for promoting U.S. exports. The agency has a

congressionally mandated orientation to especially help small and medium scale U.S. firms expand their exports. These smaller firms rarely have the resources to maintain agents and representatives in every potential market. The US&FCS attempts to fill this void.

The US & FCS has offices in all ASEAN nations except Brunei. These offices can provide a wide range of services to both local and U.S. businesses. For the ASEAN business, the US&FCS can put them in contact with appropriate U.S. firms for purchasing products and commercial services, or for establishing local joint ventures. Similarly, these officials provide information about opportunities in ASEAN countries which can be disseminated throughout the U.S. private sector via a computer network and several newsletters and handbooks. In addition, US&FCS officers provide direct business counselling to ASEAN and U.S. businesses.

Given the wide range of services these officials are expected to provide, it is not surprising that most of the US & FCS officials and users of these services the design team interviewed mentioned that these offices do not have enough resources to fulfill their mission completely. On the U.S. side they have difficulties obtaining the most timely and appropriate information about U.S. goods and firms. It was often mentioned that a highly-touted new computerized information system, SIMS, has not come up to expectations.

On the ASEAN side, officials do not have enough time to publicize their services to the local business community and to become highly knowledgeable about the strengths and weaknesses of specific firms. As a result, much of the local private sector is still unaware of the services the US&FCS can provide.

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POLICY AND CONSTRAINT ANALYSIS

A. CONSTRAINTS TO INCREASED TRADE AND INVESTMENT

All business relationships between nations are subject to constraints, which vary dramatically by country and by functional category. They range between policy barriers to socio-cultural differences to absolute shortages of resources. The issue of impediments to expanded U.S.-ASEAN trade and investment has recently been subjected to considerable scrutiny. Readers interested in this matter can now turn to several valuable sources of information. One is the document, Overcoming Barriers to Business Cooperation, prepared by the ASEAN-U.S. Business Council. Another is the recently published ASEAN-U.S. Initiative Report. Another useful source of information are the individual country marketing reports produced by the U.S. and Foreign Commercial Service of the Department of Commerce. Each of these describes both general and specific problems facing private entrepreneurs in the United States and in the ASEAN region.

For the purpose of this section, the results of the ASEAN-U.S. Business Council study are most appropriate. After describing the importance of ASEAN-U.S. trade and investment relationships, and the need to improve those relations, the study proceeds to identify the major barriers to business cooperation in both ASEAN nations and the United States. The study notes the following legal or cultural constraints as being the most troublesome.

- Absence of intellectual property protection
- Foreign equity limitations and controls
- Local banking controls and limits
- U.S. legal and regulatory inhibitions
- Taxes, including lack of tax incentives
- Corrupt practices/bribery
- Bureaucratic practices
- Over-regulation
- U.S. indifference to exports

The Council study included the results of a survey questionnaire and extensive field interviews. The overall survey results were as follows:

<u>Overall Picture for ASEAN</u>	<u>Major barriers or disincentives by frequency of mention</u>
Over-regulation by governments	30
Lack of intellectual property rights	18
Corrupt practices/bribery solicitation	16
Marketing practice restrictions	16
High or multiple taxes	11
Professional services limitations	11
Foreign equity limitations	11
Banking discrimination	10
Communal advancement policies	9
Customs administration	9
Foreign exchange/local currency limits	9
Tariffs, surcharges and other duties	7

Source: Overcoming Barriers to Business Cooperation

In addition to constraints on the ASEAN side, the study also identified the major U.S. disincentives. The Foreign Corrupt Practices Act, international trade embargoes and controls, and taxation were deemed to be very harmful to trade and investment activities. U.S. strategic trade controls and trade legislation and import programs were listed to be harmful, and only Eximbank export promotion was considered to be positive.

ASEAN members of the Business Council also presented a list of U.S. constraints, including the following:

1. Inconsistency and unfairness of U.S. laws and policies (protectionism, unfair subsidies, trade controls);
2. Quotas, such as textiles and sugar;

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3. High tariffs, such as garments and mushrooms;
4. Standards, especially FDA barriers and FAA certifications; and
5. Rigid procedures in obtaining an import certificate or licensing conditions that include unfair stipulations.

The primary constraint to increased U.S.-ASEAN trade and investment noted by the PITO project design team is a basic lack of knowledge or interest by U.S. firms in the region, particularly by smaller-sized firms. Those companies which have exported to or invested in ASEAN nations have generally found these activities to be profitable. However, to many corporate executives, the region is viewed as nonexistent, "alien," too small, or too far from home. In part this attitude is pervasive in the U.S. corporate culture, given the size of the U.S. market and ease of doing business there. However, a fundamental lack of knowledge of the region or opportunities within it are also a major cause behind the lack of U.S. corporate interest. The PITO project is intended to address this constraint directly.

B. TRADE AND INVESTMENT POLICY FORMATION

Many of the constraints identified by the ASEAN-U.S. Business Council as inimicable to increased U.S. investment in and trade with ASEAN are characterized as policy or regulatory barriers. As such, they are more amendable to adjustment than are barriers resulting from socio-cultural differences or shortages of resources. While this holds out some hope that U.S. investment and trade relations within ASEAN can be increased through policy reforms, it is obvious that each country will place its highest priority on its own national interests. Nonetheless, several policy initiatives, such as those that might achieve more balanced intra-ASEAN trade flows, could provide benefits for all countries in the region. In the absence of a coordinating body and forum like ASEAN it is unlikely that these initiatives would be considered, let alone implemented.

The conceptual design for PITO recognizes the opportunity presented by improved coordination of policies in increasing the size of markets offered by ASEAN and, thereby, the region's attractiveness to investors and traders both within and outside ASEAN. To determine possible mechanisms that might be established under PITO to encourage the development of mutually beneficial trade and investment policies, the design team examined current policy issues and the policymaking process in each country. The design team also developed an inventory of organizations in ASEAN that had the requisite capabilities and experience to undertake applied policy and constraint-reduction analyses on an ASEAN-wide basis.

BRUNEI-DARUSSALAM

Economic Planning Unit

Trade and investment policy in Brunei-Darussalam is set by His Majesty The Sultan and Yang Di Pertuan, in his position as supreme executive authority, also serves as Prime Minister. The Council of Cabinet Ministers meets in His Majesty's Official Residence, which serves also as the seat of Government for Brunei-Darussalam.

The Economic Planning Unit (EPU) is located in the Ministry of Finance and plays an important role in the budgetary process and in recommending allocations for development activities. Brunei-Darussalam maintains a balanced budget financed almost entirely from current year oil revenues. The staff of the EPU is small; about ten officers.

Ministry of Industry and Primary Resources

The Ministry of Industry and Primary Resources was recently established to provide the emphasis needed to attain the Fifth National Plan's goal of creating a more diversified economy. Many of the responsibilities of the Economic Development Board in the Ministry of Finance and relevant responsibilities of the Ministry of Development have been transferred to the new Ministry. Staffing and organizational assignments were still being defined at the time of the design team's visit, but are expected to reflect the emphasis the Government is placing on increasing agricultural production, particularly in exotic fruits, and expanding of the fishing industry beyond the current reliance on coastal water fishing.

Private Sector Groups

Brunei-Darussalam has separate chambers of commerce for its Malay and Chinese business communities. They are coordinated by the National Chamber of Commerce and Industry of Negara Brunei - Darussalam, which in turn represents Brunei in the Asean Chamber of Commerce and Industry (ASEAN-CCI).

The membership of the Malay Chamber includes 400 members, many representing one-person businesses. The Chinese Chamber includes approximately 200 business executives. The Chambers' influence on policy is primarily felt through participation in the working groups functioning under the ASEAN Secretariat.

INDONESIA

Badan Koordinasi Penanaman Modal

Investment policy in Indonesia is set principally at the Cabinet level. The Badan Koordinasi Penanaman Modal (BKPM) is the Government of Indonesia (GOI) agency responsible for promoting and approving investments, both foreign and domestic. It maintains a staff of 500 employees, most of whom are engaged in the review and regulatory aspects of processing applications for start-ups or expansions of existing firms.

Ministry of Trade

The responsibilities of the Ministry of Trade have been revised recently to eliminate its licensing and regulatory functions. Changes in the organizational structure of the Ministry and its staff of 20,000 have been slow in reflecting the de-emphasis on its previous regulatory role. The Directorate General for Foreign Trade has about 600 employees and is concerned primarily with setting and executing trade policy. It also handles operational activities such as the issuance of export licenses and other technical/regulatory export-import matters. It also operates the 24 Indonesian Trade Representative Offices (ITROs) in Indonesian embassies throughout the world.

The Directorate for Foreign Trade Relations, within the Directorate General for Foreign Trade, focuses on international trade relations and participates in multilateral and bilateral trade negotiations. Support from other sections of the Ministry and other Government Agencies is often provided for negotiations.

The Agency for Research and Development (ARD) performs policy analysis and conducts studies and research related to trade. ARD also makes use of a computerized data base of exporters and buyers to track exports and identify products with export potential. While ARD does play a role in trade policy formulation, important trade policies are also made through separate political channels.

National Chamber of Commerce and Industry

The National Chamber of Commerce and Industry (KADIN) is for all intents and purposes a public sector institution. Its membership consists primarily of the largest firms in Indonesia, including state-owned-enterprises. It serves to a considerable degree as a Government spokesman to explain and garner support for GOI policies affecting the business community.

Private Sector Organizations

There are numerous trade organizations in Indonesia, several of considerable size and potential influence. Because there is no organization currently serving to coordinate these associations it is usually necessary to seek them out separately on trade and investment policy issues.

The American Chamber (AMCHAM) in Indonesia is active and includes representatives from several of the largest oil, equipment and financial services companies in the United States. The AMCHAM has established an Investment Committee to encourage investment and provide a source of information to U.S. business.

MALAYSIA

Economic Planning Unit (EPU)

Trade and investment policy in Malaysia is set ultimately at the Cabinet level. The EPU, part of the Prime Minister's Office, acts as the secretariat of the National Development Planning Committee. The EPU also advises the Cabinet and the Prime Minister directly. The Unit plays an important role in the budgetary process, determining the allocation of development funds (i.e., capital and project budgets) and reviewing the ministries' operating budgets.

The EPU has a staff of about 200 officers. Among the distinct functions and sectors assigned to senior officers are trade and investment, financial markets, services, industrial master planning, technology, research and development, and tourism.

Ministry of Trade and Industry (MTI)

The MTI has two divisions involved in the subject area of trade and investment. The International Trade Division has a policy section that deals with Malaysia's import and export relations. In general, this division does not play an active role in the trade promotion area. Instead, it seems mainly to be concerned with monitoring and regulatory functions.

Malaysian Industrial Development Authority (MIDA)

MIDA is a division of the MTI, and is the lead agency charged with responsibility for investment promotion. MIDA has eight regional offices in Malaysia and 14 overseas centers, including three in the United States (New York, Chicago, and Los Angeles). MIDA's major functions include advising the Minister of Trade and

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Industry on development policy and strategy; coordinating national development programs with those of State Economic Development Corporations (SEDCs) within the country; advising potential investors in the manufacturing sector; and evaluating applications for manufacturing licenses, incentives, tariff protection, and duty exemption.

MIDA has four functional divisions (Industrial Promotion; Planning, Research and International Cooperation; Tariffs; and Administration, Finance and Central Services) and five industry divisions (Resource-based Industries; Electrical and Electronics Industries; Food, Beverages and Chemical Industries; Engineering Industries; and Building Materials, Textiles and Miscellaneous Industries).

Private Sector Groups

Malaysia has separate chambers of commerce for its Malay (Bumiputra), Chinese, and Indian business communities. These chambers are coordinated by the National Chamber of Commerce and Industry of Malaysia (NCCI), which in turn represents Malaysia in the ASEAN Chamber of Commerce and Industry (ASEAN-CCI). The U.S. business community in Malaysia is represented by the American Business Council. Members interviewed by the design team indicated that the Council does not have much high-level contact with Malaysian government figures and finds it difficult to provide input into the policy development process.

THE PHILIPPINES

National Economic Development Authority (NEDA)

The National Economic Development Authority (NEDA) oversees the overall development strategy of the Philippines. It serves as the planning and policymaking body of the government. Among its functions is the formulation of comprehensive, integrated development plans.

Presidential Management Staff (PMS)

The Presidential Management Staff provides technical assistance and direct policy advice to the President of the Philippines. It conducts reviews and analyses of existing economic development policies, and also plays a role in the formulation of new policies.

Department of Trade and Industry (DTI)

Created by Executive Order No. 709 in July of 1981, the Department of Trade and Industry is the primary government arm for the promotion, development, and expansion of the Philippines' domestic and international trade.

Board of Investment (BOI)

The BOI is responsible for evaluating applications for manufacturing projects in priority areas, administering both tax and non-tax incentives, and monitoring projects. Enterprises must register with the BOI to be eligible for incentives. The BOI maintains and updates annually a list of preferred investment areas.

Department of Agriculture and Food (DAF)

This department has primary responsibility for policy, planning, programming, coordination and administration of development programs in the agricultural sector. This includes agro-industry projects.

Private Sector

Both the local Filipino and U.S. private sector representatives interviewed as part of the PITO design mission indicated that they had meaningful input into the policy formulation process. The Philippines Chamber of Commerce and Industry (PCCI) works closely with the Board of Investment in particular. Some foreign business leaders noted that this relationship may be, if anything, too close, as evidenced by a similar protectionist outlook on the part of both institutions. In addition to the PCCI, there is a Filipino-Chinese Chamber of Commerce and Industry, but its focus is primarily domestic.

The Makati Business Club (MBC), named for the central business district of Manila, is an influential forum for local business leaders. About 500 companies are represented. MBC does a certain amount of research of its own, but this is essentially limited to polling its members for their views on current issues, institutions and programs.

The United States, of course, has long had a deep involvement in the Philippines economy, and American business leaders there today seem satisfied with the degree of access they have to policy makers from the President on down. They may not agree with policy decisions, but generally they do feel that they have the opportunity to put forward their views. USAID and FCS officers expressed similarly positive outlooks on their policy dialogue efforts with government figures.

SINGAPORE

Although Singapore and Malaysia long shared British colonial rule, and were subsequently joined from 1963 to 1965 in the independent Federated States of Malaysia, they have since diverged in their strategic and institutional approaches to economic policy formation and implementation. In both countries a Ministry of Trade and Industry (MTI) is the cabinet department normally responsible for the development and implementation of trade and investment policy. The policy direction is set by the Prime Minister and Cabinet.

Singapore has no equivalent, however, of the Economic Planning Unit permanently established within the Malaysian Prime Minister's Office. Instead, Singapore has recently turned to ad hoc committees to devise and recommend new policy initiatives in response to particular challenges. Undoubtedly the most significant example of this was the Economic Committee appointed in 1985 to seek ways to mitigate the sharp recession that affected Singapore in 1985 and 1986. The Economic Committee recommended a number of fiscal and other expansionary measures (e.g., reductions in corporate income tax rates and employers' Central Provident Fund contributions, wage restraint, etc.) that were ultimately adopted by government and labor. On a less macro level, in 1988 the government Economic Development Board convened a 3-day "SME Development Plan Workshop" on ways to increase the productivity, profitability and economic contribution of small and medium enterprises (SMEs) in Singapore.

In neither of these cases was trade and investment the primary focus. Nevertheless, they illustrate a striking facet of policy formation in Singapore today, that is, the innovative way in which the government brings the private sector into the policy development process. The Economic Committee brought a number of senior executives from prominent companies together with top government technocrats. The SME Development Plan Workshop had a much broader outreach, and involved trade associations and chambers of commerce, academics, consultants, and business leaders, as well as government representatives.

Singapore Economic Development Board (EDB)

The EDB, a statutory board under the Ministry of Trade and Industry, has had primary responsibility for economic planning, investment promotion, and program development in Singapore since 1965. While it still retains these functions, over the years it has spun off as independent statutory boards or public companies units dealing with:

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- Ownership, development, and management of industrial estates, now under the Jurong Town Corporation (JTC).
- Development finance, now under the Development Bank of Singapore (DBS), a full-service, publicly held commercial bank.
- Export promotion, now managed by Intraco, a public trading company.
- Industrial research and standards, now under the Standards and Industrial Research Institute of Singapore (SISIR).
- Productivity promotion, now implemented by the National Productivity Board (NPB).

Over the years the EDB has had to change direction on several occasions to reflect new economic policy and strategy. As early as 1963, the government recognized that Singapore's historical entrepot role would become less and less viable as the newly independent nations of Southeast Asia sought to develop broad-based economies of their own. The response at that time, while Singapore was still politically affiliated with Malaysia, was a shift to a labor-intensive manufacturing economy based on import substitution and protected access to the larger Malaysian market.

When Singapore left the Malaysian federation in 1965 it scrapped its import substitution policy, which was clearly no longer viable for a country of Singapore's size, in favor of an export development strategy. Active promotion of foreign investment was a key part of this new policy. The country achieved virtual full employment by the end of the 1960s and began a drive that continues today to phase out labor-intensive industries and replace them with more skill-intensive, higher value-added industries. From the early 1970s to the mid 1980s this meant an emphasis on electronics and a few other high-technology manufacturing or assembly industries.

Starting in 1986 the EDB has implemented a new policy aimed at stimulating investment in selected service industries. These include medical services, education, agro-technology, management consultancy, engineering services, and warehousing, among others. Recognizing that many service industries do not offer the same economies of scale that characterize manufacturing, the EDB has concurrently developed a strong focus on the problems faced by small and medium enterprises, and offers eligible firms a wide range of grant and incentive programs.

Trade Development Board of Singapore (TDB)

The TDB is a statutory board under the Ministry of Trade and Industry, like the EDB. It does not have as great a policy role as does the EDB, simply because Singapore follows a relatively free trade policy that requires little interpretation or administration. With few exceptions, Singapore imposes import duties or tariffs only to support social policy, e.g., to discourage consumption of alcohol and tobacco, and to ration the purchase of private automobiles.

Trade infrastructure development best describes the TDB's focus today. An example is the TradeNet system under development with TDB funding. This will include a computer network linking importers, exporters, freight forwarders, cargo agents, shipping companies, etc., plus relevant government departments such as Customs and Excise; TradeNet will provide for automated shipping and customs documentation, electronic data interchange (EDI) between buyers and sellers, statistical reporting, and other features. On an even more proactive level, the TDB has formed its own venture development company to invest in such projects as:

- a fast-food outlet in Tokyo to pave the way for Singaporean exporters of processed and prepared food products; and
- a wholesale merchandise mart based in Singapore and aimed at buyers for Japanese retailers.

Private Sector

As described above, in several important, recent instances the Government of Singapore has not only sought the advice of the private sector on economic policy matters, it has effectively engaged the private sector in the process of policy formulation. This has included not only local business leaders but also foreign firms' executives. For example, prominent business leaders often serve on the board of statutory agencies.

In Singapore's system, which requires official registration of societies such as trade associations, the local Chambers of Commerce have a semi-official status. There are separate Chinese, Malay, and Indian Chambers, reflecting the ethnic mix of the nation and the fact that business relationships in Singapore still follow communal lines to a considerable extent, as well as an overall International Chamber of Commerce and Industry. The principle policy dialogue activity of ethnic chambers is lobbying on domestic political and economic issues.

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The U.S. chamber in Singapore is obliged to operate under the name of the American Business Council due to legal restrictions on using the title "chamber of commerce." Council executives have frequent contact with Singapore policy-makers below the ministerial level.

THAILAND

Thailand is currently in the midst of the sixth five-year National Economic and Social Development Plan (1987-1991). Among other goals, the plan calls for a 10.7 percent annual increase in exports and an average 8.1 percent annual growth in private investment. With current economic performance exceeding these targets, the Royal Thai Government (RTG) has adjusted the focus of the Plan to provide a greater emphasis on infrastructure and regional development.

High-level economic policy in Thailand is promulgated by the National Economic and Social Development Board (NESDB), which coordinates overall government budget allocations. Trade and investment policy is formulated by a number of ministries and departments, generally coordinated by the Board of Investment, a high-level, inter-ministerial group. Among the most important of these government bodies are the following.

Office of the Prime Minister

In addition to the Prime Minister himself, the Office of the Prime Minister has at its head a minister actively involved in RTG investment policy. While the Prime Minister is Chairman of the Board of Investment, this minister is one of 12 members of the Board.

Board of Investment (BOI)

The BOI is both a policy-making body and an implementing agency. The BOI's investment promotion activities are described below. In its policy-making role, the BOI serves to coordinate the viewpoints and responsibilities of several key RTG economic ministries. The Prime Minister, as noted above, is Chairman of the Board, and the Minister of the Office of the Prime Minister is a Member. The other members of the Board are the Minister of Industry (Vice Chairman), the Ministers of Finance, Agriculture and Cooperatives, Commerce, Foreign Affairs, and Interior, plus the Secretary General of the Juridical Council, the Governor of the Bank of Thailand, and the President of the Industrial Finance Corporation of Thailand. The twelfth member and Secretary of the Board is the Secretary General of the Office of the Board of Investment (OBOI), the Board's secretariat.

In addition to the BOI's 12 board members are five official advisors. They are the Secretary General of the Office of the National Economic and Social Development Board, the Director General of the Department of Labour, the President of the Federation of Thai Industries, the President of the Board of Trade of Thailand, and the President of the Thai Bankers Association.

Economic Ministries

The Ministries of Finance, Industry and Commerce participate in investment policy-making and promotion through the BOI. In addition, ministries may have their own international divisions. The Ministry of Industry, for example, has a Foreign Relations Division, which in turn has an ASEAN Section. The Inspector General of this Ministry, moreover, is Thailand's representative in the ASEAN Committee on Industry, Minerals and Energy (COIME), which approves AIJV (Asean Industrial Joint Venture) projects.

Private Sector

The private sector has input into the BOI's policies and activities through the participation of the Federation of Thai Industries, Board of Trade, and Thai Bankers Association as formally recognized Advisors to the Board. In addition, senior RTG leaders, including the Prime Minister, meet monthly with representatives of these and other private-sector groups in the Joint Public Private Sector Consultative Committee (JPPSCC). The American Chamber of Commerce conducts various policy dialogue activities in pursuit of the interests of the U.S. business community in Thailand.

C. ASSESSMENT OF POLICY ANALYSIS/SUPPORT INSTITUTIONS

MALAYSIA

Two institutions were consistently mentioned by those interviewed as candidates for conducting policy studies under PITO: the Institute for Strategic and International studies (ISIS), and the Malaysian Institute of Economic Research (MIER). Although both ISIS and MIER have substantial government backing, they are generally considered to be independent in their outlook. Where the emphasis of a given research issue is more political than a matter of technical economics, most of those interviewed indicated that ISIS is the better qualified of the two institutes. ISIS is seen as having a "broader" focus than MIER, and is reportedly heavily used by the government.

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MIER's strength, as its name suggests, is in more rigorous economic analysis. EPU officers, for example, named MIER as the organization they would be most likely to engage to conduct research in their area of responsibility. MIER's legal status is as a private company limited by (government) guarantee. According to one of the Institute's brochures, it undertakes "economic research projects commissioned by clients in (both) the public and private sectors." Among MIER's explicit objectives is to "serve as a bridge between the Government, the private sector and the universities, and become a focal point for all economic and financial research in the country." MIER cites six areas of research activity: agricultural sector, industry, labor, international trade and economic relations, money and banking, and macroeconomic policy and planning.

THE PHILIPPINES

Those interviewed by the design team listed a relatively large number of organizations in the Philippines as possible candidates for policy analysis studies. Each is seen as having its own particular strengths, therefore selection of one institution or another should be made based on the requirements of the issue under consideration.

The Asian Institute of Management (AIM) is unique among academic or research bodies in the region, in that it is a true ASEAN institution, with funding, students, and faculty from all of the six member countries. Several interviewees thought that this could be an advantage in that AIM would not be seen as biased toward any one country. The limitation of AIM as far as the policy analysis component of PITO is concerned is that it is a management institution rather than a center of business or policy research. This point was raised even by one interviewee who is a part-time faculty member at AIM. Nevertheless, many of AIM's faculty are widely respected, especially in the Philippines, and their work on local business issues would have credibility.

The Center for Research and Communications (CRC) was the most frequently mentioned research institution in the Philippines. The CRC describes itself as "a private, nonstock, not-for-profit institution devoted to research, communication, and professional development activities in economics and business." Recently CRC established a College of Arts and Sciences offering undergraduate programs in Humanities, Economics (both Political Economy and Quantitative Economics), Business Administration, and Education. CRC was also well known outside the Philippines, though its affiliation with the Catholic church (through Opus Dei) is suspected by some to compromise its independence and objectivity. CRC's literature states that "the involvement of Opus Dei in CRC is strictly in the sphere of ethics."

SyCip, Gorres and Velayo (SGV) is one of the oldest professional firms in the Philippines. The firm is now an affiliate of Arthur Andersen & Co. Washington SyCip, founder and chairman, is himself viewed as an "institution" in the country and is a widely respected figure in the business community.

The Philippine Institute for Development Studies (PIDS) is a non-stock, non-profit, government research institution engaged in long-term, policy-oriented research. Among those interviewed, PIDS was mentioned only by U.S. and Philippines government representatives. Nevertheless, those who did suggest PIDS as a possible policy-analysis group for PITO based their recommendation on what they considered to be PIDS' free-market orientation.

The University of the Philippines School of Economics offers both undergraduate and graduate degree programs in economics. It is well regarded for the quality of its research, and is seen as influential in government policymaking. Some interviewees qualified their recommendation of the school, however, with the opinion that the department has something of a "leftist" outlook.

The Economics Development Foundation is a private, non-profit institution engaged mainly in policy research, project evaluation, and preparation of research studies. The PITO team did not have direct contact with the Foundation, and it does not seem to be well known in either the business or government community.

The Development Academy of the Philippines (DAP) was mentioned as a center for policy research by a Philippines legislator. It is a government institution, and its primary function appears to be that of a civil service training facility for individuals in the development field.

SINGAPORE

Only one organization was consistently mentioned for a policy analysis role in Singapore: The Institute of Southeast Asian Studies (ISEAS). Indeed, ISEAS was frequently cited in other countries as a recognized center for regional studies. Located adjacent to the National University of Singapore, ISEAS has excellent facilities. The Institute is technically a statutory board of the government of Singapore, and was founded in 1968. According to its 1987-88 annual report, ISEAS "is governed by a twenty-two-member Board of Trustees on which are represented the National University of Singapore, appointees from the government, as well as representatives from a broad range of professional and civic organizations and groups."

In addition to the Board of Trustees, ISEAS has a Regional Advisory Council. This body includes representatives from the ASEAN region universities of the Philippines, Malaya, Indonesia, and Singapore, and Chulalongkorn University in Thailand, as well as from the University of Hong Kong. The Institute received donations and grants totalling about U.S.\$1.4 million from 17 sources in the 12 months ending March 31, 1988. These included contributions from the Ford Foundation, USAID, the International Development Research Centre of Canada, and the Konrad Adenaur Foundation. The Singapore government provides grants to cover the Institute's operating expenses.

ISEAS has research programs focusing on Pacific and ASEAN Studies and on each of the individual ASEAN countries, as well as on other Southeast Asian nations (Burma, Kampuchea, Laos, and Vietnam). Regional programs include the Southeast Asian Studies Program (SEASP), Regional Strategic Studies Program (RSSP), the ASEAN Economic Research Unit (AERU), Social Issues in Southeast Asia (SISEA), and the Southeast Asian Cultural Program (SEACUP). ISEAS, has been involved in a number of important regional studies.

The reservations expressed concerning ISEAS revolve around two issues. First, interviewees in some countries noted the Institute's close statutory and financial linkages to the government of Singapore, and questioned whether ISEAS is truly in a position to analyze sensitive regional policy issues independently and objectively. Second, some concern was raised about the management depth of the Institute and its capacity to coordinate a substantial new regional program.

CAPITAL MARKET DEVELOPMENT

A. PROPOSED OPIC GROWTH FUND FOR THE ASEAN REGION

OPIC is planning to establish an equity growth fund to assist ASEAN member countries. The objective of the fund is to provide institutional equity and quasi-equity for projects with substantial U.S. involvement in terms of ownership, technology and/or trade relationships. This is the second of a series of regional equity funds OPIC hopes to establish to broaden the range of financial services to U.S. interests in developing countries provided under its institutional umbrella.

This fund will make equity and quasi-equity investments for projects with substantial U.S. involvement in terms of ownership, technology licensing and/or trade relationships. The fund is to be a self-financing and profit-making activity. It would be capitalized by investments from the general partner, who would also manage the fund, as well as investments by limited partners and long-term notes guaranteed by OPIC.

The parameters of the fund are still under discussion between OPIC and potential managers, but it is expected that the fund would be capitalized at around \$100 million and individual investments would run from \$1 million to \$4 million. With this size of individual investments, it is clear that the fund will be of greatest utility to small and medium scale projects and thereby small and medium scale U.S. firms. It is these firms which often have the most difficulty in raising capital for their projects, and thereby often suffer from under-capitalization, making it difficult for them to withstand short-term setbacks. With a source of equity finance it will be easier for them to establish projects in the ASEAN region.

OPIC plans to make a decision whether to go forward with the ASEAN fund in June or July, 1989. OPIC's decision depends heavily on finding an experienced and competent management firm willing to make a substantial financial investment in the fund. Negotiations between OPIC and the managing partner will determine the exact parameters of the fund. However, even if a decision is made to go forward with the fund by the early summer, OPIC and its partner will still need help analyzing what specific market areas should be targeted and how the fund should be operated.

B. MARKET DEMAND: RECENT DEVELOPMENTS IN ASEAN FINANCIAL MARKETS

Financial markets in ASEAN member countries are undergoing rapid transformations which are increasing not only the demand for

the types of investments to be made by the proposed OPIC fund but also the competition from other institutional investors. While banks and debt financing are still the primary formal financial institutions and source of institutional project financing, they are no longer exclusive. Responding to the demand for a broader range of financial services generated by rapid economic growth and to increased competition in financial markets released by financial deregulation, new sources of finance are developing. In response to this competition, banks themselves are broadening the array of financial instruments they provide.

In almost all of the ASEAN countries, equity markets are expanding rapidly. Stock markets for public issues are well established in Singapore and Kuala Lumpur, but are beginning to develop rapidly in the other large ASEAN economies as well. In most ASEAN economies several offshore funded equity funds for public issues have been established. These overseas funds have helped to boost stock prices significantly, which in turn has led to increased interest by local firms for public issues to increase their capital base. It should be noted, however, that many of the more established firms in the region are family owned and managed, and they are loathe to allow control to fall outside of the family. As a result, they are willing to sell only a minority of the company, and often try to restrict the rights of minority shareholders. The equity investment of most new ventures is still provided by family resources.

With the increased activity of local and foreign investment banks in ASEAN countries and the establishment of some venture capital funds, the complete reliance on family resources for initial equity investments is beginning to change. Moreover, private placement of equity investments is also expanding, as demand for these types of investments expand locally and local entrepreneurs recognize the advantage of a broader equity capital base. Venture capital funds have been established recently in Thailand, and have operated for some time in Malaysia and Singapore. As economic growth accelerates in Indonesia and the Philippines, similar funds providing project financing for new ventures are expected to be established.

The dominant commercial banks are responding with a new willingness to provide both longer term financing and some equity capital as part of a project's total financing package. In Thailand, for example, banks are providing half of the capital for the country's first venture capital fund. In short, a wide range of institutions are beginning to provide institutional equity capital. To some degree the money is chasing the projects, rather than the standard experience of projects chasing money. However, as entrepreneurs become more accustomed to equity partners, it is expected that demand will begin to catch up with supply.

Although investor interest in equity investments in the ASEAN region is high, it should be noted that the rights of minority interests are often not great nor effectively enforced. As a result it is difficult to sell minority interests of non-public shares. As the deal flow increases, however, demand for greater protection of minority interest will rise and steps will be taken. However, in the current situation institutional investors in new projects may have to hold their investments longer than they may be accustomed to in industrial nations.

C. MARKET NICHE FOR AN OPIC FUND

Given the substantial response by the private sector locally and abroad to provide equity capital to the private sectors in most ASEAN economies, there does not seem to be a need for a general equity investment fund by OPIC. Government agencies need not become involved when the private sector is more than adequately fulfilling public demand.

While there is no apparent requirement for another general investment fund, there is a special need for the OPIC fund which is not being adequately met. U.S. firms, especially small and medium scale enterprises, have great difficulty in competing in the ASEAN region because of the lack of competitive financing. If they could obtain equity financing for joint ventures or for the principal procurers of their equipment, services or technology, they could reduce their financing costs in the initial years of a project.

This type of available financing would be especially attractive for turn-key or BOT (Build-Operate-Transfer) projects where financing is a key selling point. With substantial equity financing from an OPIC sponsored fund, financing costs would be lowered, making bids from U.S. firms more attractive. This financing thereby could help expand the presence of U.S. firms in the area, and at the same time increase the flow of technology to enhance the productivity of local economies and help to develop local capital markets.

By specializing in investments for firms with strong U.S. linkages, the OPIC fund not only will be fulfilling unmet needs, but equally importantly will be able to concentrate on one niche of local capital markets which should give them a competitive advantage. Projects with strong U.S. linkages will go first to the OPIC fund, and similarly U.S. firms with interests in ASEAN will go to OPIC first as well because of its specialization. If the initial projects are successful, the ASEAN private sector should seek out U.S. partners to be able to participate in these investments. Finally, a demonstration affect should allow U.S.-

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linked projects to secure competitive financing from other sources as well, further enhancing the competitiveness of the U.S. private sector in ASEAN.

D. RECOMMENDATIONS FOR PITO SUPPORT

It is clear that the OPIC fund would help to meet the objectives of the PITO project of improving the productivity and dynamism of ASEAN economies by establishing stronger commercial linkages between the U.S. and local private sectors. However, to be successful, a detailed analysis of the local markets should be conducted to determine whether there will be sufficient demand for fund investments. Moreover, analysis must be conducted to see what types of equity investment would be in most demand and could be used most successfully to support U.S. commercial interests in the region.

Accordingly, in order both to encourage establishing an equity investment fund to support U.S. private sector participation in ASEAN and to help ensure its success, it is recommended that the PITO Project provide OPIC and its manager with financing of up to \$200,000 to conduct market analyses in order to ascertain demand in detail and tailor its product to the market.

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QUALITY AND TECHNOLOGY DEVELOPMENT IN ASEAN

A. THE ROLE OF QUALITY, STANDARDS, AND TESTING

The process of assuring quality is an important part of efforts needed to promote trade and investment between U.S. and ASEAN private firms. Effective quality, standards, and testing systems in any country will help greatly in attracting investors, reducing production/marketing costs, and insuring continued market sales. Such has been the case in the growth of every modern industrial nation. All ASEAN countries will have this need, and therefore it is a reasonable area for regional cooperation. It is significant that a large number of those in both the public and private sectors interviewed by the project design team in the ASEAN nations either volunteered or agreed that improving quality/standards was a proper and important activity to be addressed by PITO.

Several elements of quality need to be defined:

Quality Assurance - A term referring to the overall process for maintaining quality of products and processes. This includes the whole organization -- management commitment, worker performance, equipment, and the control process.

Quality Control - A somewhat narrower concept usually referring to the statistical control of the output of the production process.

Product Standards (also called documentary standards) - Descriptions and specifications of a specific product established and issued by some national or international standard-setting body. In both the United States and ASEAN nations, a voluntary consensus standard-setting process is followed (rather than a mandatory, central-government process). Over 300 groups in the United States prepare standards through the use of voluntary technical committees with members from all interested government and industrial organizations. These groups are usually trade associations or professional societies, dealing with a specific technology or sector. International standards are prepared in a similar way, and are often adopted for national use by many nations.

Safety Standards - These are specifications issued to protect health and safety, usually as mandatory requirements by government agencies. Included in safety standards are food/drug standards, building standards,

air/water pollution limits. Such safety standards are very relevant to many ASEAN trade/investment situations because they control the ability to sell products or the production methods that can be used.

Physical Reference Standards (also called primary measurement standards) - A set of scientific standards of highest measurement accuracy and precision agreed upon by international treaty organizations. Examples are basic standards for mass, length, temperature, and electrical units. Usually each nation maintains a central reference laboratory with the capability to maintain these standards and assist their industrial firms in applying them. Because no private firm can recoup its investment for such activity, it is always a government function, e.g., NIST in the United States, SISIR in Singapore, SIRM in Malaysia, and TISI in Thailand.

Laboratory Certification - An evaluation or inspection process where a testing laboratory is certified by a government or other recognized authority as capable of correctly performing certain tests or meeting certain standards. Such certification is then accepted by buyers or regulators as fulfilling requirements. The certified laboratories are sometimes allowed to display or issue a certain quality "mark." Certification is often important in exporting and foreign inspection situations.

The Role of Technology Transfer and Commercialization - Many, if not most, of the trade and investment opportunities that will be promoted by this Project will involve applying technology to some degree (either the product or the way it is processed). Converting technology from the idea or laboratory stage into a successful product in the market is an uncertain, risky process, whether in the United States or in any other country.

B. SHARING AMONG ASEAN COUNTRIES

There are many opportunities for cooperation to fulfill needs common to ASEAN nations, particularly in the areas of technology development, standards, testing, and quality assurance. All these nations are in various stages of industrialization and pushing to be the next Pacific "Tiger." In one sense they are competing with each other for markets and growth, and cooperation in these

commercial stages might be resisted. Interviewees admitted or volunteered that competition would be a barrier to intra-ASEAN cooperation. Nevertheless, careful selection can identify several areas early in the technology development process and common to most ASEAN nations where cooperation and sharing is both feasible and beneficial. In fact, this type of cooperation is even more important during the initial stages of a nation's economic development. This was true for Japan where MITI provided or promoted cooperative research and technical services involving government labs and private firms.

The benefits of regional cooperation are multi-dimensional. Economic resources are limited in each country and both public and private investment is often the limiting factor on growth. The saving is obvious if each nation does not have to separately invest in certain facilities and skills. Economies of scale definitely operate in these fields.

Even more important is the efficient use of scientific and technological talent, which is very scarce in all ASEAN nations, and may be even non-existent in some situations. Many years and many interactions are usually needed to develop effective centers of technological expertise.

The participating parties in this cooperation will vary over different stages of development, different countries, and different levels of willingness. Since private firms are the proper place for making and selling products, the goal is eventually to have as much as possible of these technical services provided by the private sector, either within individual firms or as a service that can be purchased from other private firms. However, most developing nations have found that early in their development process the government has had to take actions to ensure that inadequate technical services and standards did not constrain development. Mechanisms used include government-operated laboratories, government-funded private organizations, university centers (usually publicly funded), consortiums of private firms, or combinations of these. The important point is not where they are located, but that these elements of the technological infrastructure become available to manufacturing and research firms, the same as those which exist in all modern industrial nations. One objective of the Project is to ensure that these quality-enhancing technical services and standards exist so as to help attract investors (both U.S. and ASEAN) and fulfill their efforts to commercialize technology.

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C. AID SUPPORT TO THAILAND

A USAID bilateral grant has been given to improve the science and technology capabilities in Thailand for a five-year period starting in 1988. Thailand created the Science and Technology Development Board (STDB) to carry out this project. STDB in turn awarded a contract to the National Research Council, the operating arm of the U.S. National Academy of Sciences (NAS) to provide management services, such as on-site staff and short-term experts.

A major goal of the STDB program is to upgrade Thai R&D capabilities and institutions by awarding specific grants for new equipment, training, conferences, and U.S. study missions. Most of these grants are provided to government institutions, since that is where the R&D is currently being undertaken in Thailand.

Another major project component is entitled "Standards, Testing, and Quality Control (STQC)," and is aimed at upgrading that element of Thailand's technological infrastructure that provides such services/assistance to industry. In Thailand, these capabilities and services have been spread across many government agencies, with little coordination. The main actors are the Thailand Industrial Standards Institute (TISI), the Thailand Institute of Scientific Technological Research (TISTR), and the Dept. of Science Services (DSS) of the Ministry of Science, Technology and Energy.

Given the normal difficulty of reorganizing any government, STDB is concentrating on providing coordination in this STQC area, minimizing duplication of services, creating or upgrading capabilities to fill gaps, and providing leadership to both government and industry. Activities underway or planned include: periodic conferences to bring government agencies and private firms together to describe/evaluate their STQC functions, training courses in weak areas, short-term assignments for U.S. experts for training or consulting tasks, surveys and assessment of use needs, joint planning of Thai programs, study missions to the United States, and building linkages with U.S. institutions like NIST, EPA, and FDA.

D. EUROPEAN COMMUNITY AND JAPANESE SUPPORT TO ASEAN

One relevant project that could complement or compete with the proposed Project is a recently started, three year, joint project supported by the European Economic Community (EEC). The objective is the "harmonization of EEC and ASEAN standards," and is being housed and coordinated by the Thailand Industrial Standards

Institute (TISI) in Bangkok. Although nominally underway this year, the selection of specific plans and priorities await the appointment of the Project Director, who must be from the EEC.

Four ASEAN countries chose to participate in this joint project - Thailand, Indonesia, Malaysia, and the Philippines - and each is represented on a Project Steering Committee. The EEC has funded it at a level of five million EU for the three-year life. Staffing will include three EEC professionals and four locally-hired staff, plus clerical staff. TISI is providing office space. The project plan identifies four areas of attention: electrical/electronics, agricultural machinery, iron and steel production/fabrication, and the general area of quality assurance. Two thrusts were identified. The first was harmonizing product standards. The second thrust was strengthening institutions in all supporting areas. Experts will be used to strengthen metrology (ie. measurement and science), testing, information systems, and laboratory accreditation. Activities during the next year or so of operations will determine more specific actions. For example, it is not clear if efforts will be made to modify product standards within ASEAN countries to fit with EEC standards. In any case, the EEC's self-interest is clearly involved.

This EEC effort is relevant to the current USAID project for several reasons. Future U.S. investment and industrialization assistance must both live with EEC competing efforts and build upon the standards work being done. It can even be argued the United States needs to provide similar assistance to balance the EEC efforts on standards harmonization. It is still true that Thailand, for example, sells most of its exports to the United States and is favorably disposed toward continued compatibility with U.S. standards and institutions. We will have to be concerned that the capabilities of TISI are not overburdened by too many ASEAN tasks. Officials there indicated a strong willingness to participate.

Japan has recently started to play a part in Thailand, and a similar role can be expected eventually in other ASEAN nations, as Japan starts to implement a sizable foreign aid program. The Japanese have chosen the standards and testing area since it will be of direct self-interest to their export and investment activities. In November 1988, Japan signed a grant to Thailand of U.S.\$21.1 million. About \$12 million of this will go to TISI for constructing a building and fully equipping a laboratory intended for product testing. Included is Japanese technical assistance in industrial testing and technical training. The other \$9 million will go to the Thailand Industrial Science and Technological Research (TISTR) for strengthening industrial metrology. In addition, a large Japanese grant has recently been announced for the Department of Medical Services of Thailand to improve their testing and laboratory capabilities.

All this outside support (including the current USAID project to the Science and Technology Development Board in Thailand) will contribute to improved technological capabilities within ASEAN nations. The next task is to deliver them to U.S. and ASEAN industrial firms and hence contribute to commercial market success.

E. U.S. QUALITY AND STANDARDS GROUPS

When assistance activities aimed at improved quality get underway, it would be useful for the appropriate ASEAN organizations to link better to U.S. product standards and standard-setting processes. While the American National Standards Institute (ANSI), a private organization that coordinates or manages U.S. participation in international standards activities, it might be more useful to establish linkages with specific groups that prepare standards. The largest such organization is the American Society for Testing Materials (ASTM) in Philadelphia. ASTM recovers its costs by selling copies of its standards; it already sells them overseas. ASTM has been recently expanding internationally, and would likely be very open to cooperation or some form of assistance if ASTM's extra costs were covered. Similar standards groups could be identified when specific technical products of interest are known (such as electrical machinery, air conditioners, or toys), because the coverage among the 400 plus groups is extremely varied.

When quality assurance is the focus, the linkages could be with groups like the American Society for Quality Control (ASQC) or the American Society of Mechanical Engineers (ASME). Both of these organizations are non-profit professional societies which might help if costs are covered.

F. SPECIFIC PROJECT ACTIVITIES

Described below are potential projects that appear feasible and beneficial to support during the first year or two of the Project. In each case additional design and coordination efforts with ASEAN organizations would be needed.

Policy Analysis and Actions - As a part of the policy analysis component of the overall program, there are a series of topics that should be addressed in the quality, standards, and technology development areas. What are needed are not academic-type studies, but practically-oriented efforts that bring together government and private officials from ASEAN countries that must establish and implement policies. Useful topics include the following:

- What is the best strategy for each country to improve the technology level of its industrial and agricultural base? Is it better to buy or license foreign technology, or to promote internal development by more R&D? How should this strategy change as the economy of the nation evolves?
- What techniques and incentives can be effectively used to increase the transfer of technology and/or commercial development? First a thorough identification and evaluation should be conducted on the various activities presently being implemented in each ASEAN country. Then, officials can be brought together to discuss what initiatives the private sector can take in comparison to the alternative of government programs.
- What specific changes, incentives, or technical assistance would promote development of commercial technology, filling particularly the special needs of small and medium sized firms?
- How should the standards systems of the various ASEAN countries be changed to better match the requirements of the major export markets of the U.S., EEC, or JAPAN?
- What is the appropriate role of technology parks, incubator facilities, and special development centers in helping new or existing small businesses?
- How is it possible to encourage the private sector to realize the importance of quality and to commit managerial and financial resources to improved quality assurance?

Quality, Standards, and Testing - The Project could hold an ASEAN-wide conference/symposium on Quality Assurance in developing countries. The objective would be to bring together government and private sector leaders to discuss common problems and needs in a non-threatening forum, and to introduce them to each other so as to facilitate future coordination. The conference could be hosted in the United States if it would help participation, or in an ASEAN country. Speakers and leaders from the U.S., ASEAN, and newly industrializing countries should be on the program. The sharing of success stories would be included. A non-threatening title could be "The Technological Base Needed for Quality Assurance and Economic Growth in ASEAN Countries." A follow-up conference could be held a year or two later.

Other possible Project activities could include the following:

- Provide quality assurance and quality control consultants as a resource to strengthen effectiveness in each country.

Activities could include evaluation of gaps and needs, training of staff of implementing agencies and firms, and planning of national campaigns to promote quality.

- In support of quality promotion efforts, conduct a feasibility study on establishing an annual award in each ASEAN nation (or ASEAN-wide) to recognize a private organization for excellence in quality performance. This would be patterned after the Deming Award in Japan and the Baldrige Quality Award in the United States.
- Establish continuing linkages between similar U.S. and ASEAN institutions. The Project might fund or organize an initial symposium or study mission on common problems. Options for linkages are:
 - o between private partners with U.S. firms and trade associations;
 - o government labs (U.S. agencies could be EPA, USDA, NIST, FDA, DOE);
 - o voluntary standard-setting organizations (ASTM, ANSI);
 - o private testing labs like Underwriters Lab;
 - o technology transfer, innovation, and R&D centers at the state level; and
 - o a U.S. consulting firm under contract to AID to support ASEAN firms.
- Organize or strengthen ASEAN programs that provide information on product standards, testing, and safety standards that firms that trade with the United States (or the EEC, or Japan) will have to fulfill. Since this information (and understanding it) will be the same for all ASEAN countries, some sort of joint project or cooperation might be acceptable. Expanding certification and inspection to meet foreign requirements could be combined in this project. U.S. investors would benefit from these improved services when parts of their products are exported. Thailand, for example, has had several shipments of various processed foods rejected by U.S. inspectors because safety standards were not met.

Technology Transfer and Commercialization

- Set up a mechanism to fund feasibility studies of specific new technology opportunities for smaller firms on a cost sharing

basis (maybe a 50 percent or 75 percent grant). At least in the beginning, U.S. experts should do the studies for credibility with potential U.S. partners, but involving ASEAN subcontractors would allow developing local capabilities for future applications. The feasibility analysis should include a preliminary business plan, but the final business plan must involve the organization investing the money. An interesting variant would be to award a grant to a new partnership formed between a U.S. firm and an ASEAN firm to pursue development of a commercial product. A Phase I grant could cover the joint feasibility study (probably about \$10,000 - 20,000) and if favorable, a much larger Phase II grant could fund 50 percent of the cost of developing the product. If the product sells, the Phase II grant could be repaid through royalties. This grant process is patterned after the AID-supported PACT program in India, and the BIRD program supported by the Joint-U.S. Israeli Foundation.

Establish a process for bringing together - matching - U.S. organizations with technology or money with appropriate firms in ASEAN countries. Smaller firms particularly need this technical assistance. The matching could continue as far into the deal-making phase as needed. Because knowledge of U.S. firms/investors is needed, this task would best be contracted to a U.S. firm. The matching could pursue selected priority sectors which vary over the life of the AID project.

COMMERCIAL TECHNOLOGY DEVELOPMENT

A. ASEAN TECHNOLOGY TRANSFER ISSUES

The U.S.-ASEAN Center for Technology Exchange has just completed a voluminous review entitled "Opportunities for U.S.-ASEAN Trade and Investment." The study's analysts believe that, in general, priorities for the region, in order of importance are:

1. agribusiness, including aquaculture;
2. energy conservation and cogeneration;
3. environmental protection;
4. packaging;
5. machinery and machine tools;
6. materials, including plastics; and
7. electronics.

This list provides a useful tableau of current ASEAN opportunities. The reader should also be reminded this list excludes sectors where U.S. companies have already established extensive trade and investment relationships or areas where existing programs promoting U.S.-ASEAN trade have already been established. Certainly, areas where the United States has been successful in promoting trade and investment and where effective programs are in place are of great interest to the present initiative since they represent examples that can be learned from and emulated elsewhere.

Since the U.S.-ASEAN Center study provides a detailed review of each sector, there is no need to repeat that process in this analysis. As a planning study, it is more useful to address the needs and issues that will affect the way the PITO Project is organized. The issues to be reviewed are not only based upon the issues identified by the U.S.-ASEAN Center but are also derived from discussions with other organizations and businesses seeking to promote similar objectives.

B. NEEDS AND ISSUES

To promote the use of U.S. technologies in the ASEAN region, it is clear that an effective mechanism is needed for matching ASEAN parties needing technologies with U.S. technology proprietors. However, the sale of technology is very different from the sale of products and is much more difficult to accomplish.

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Although ASEAN businesses tend to be much more diversified than elsewhere, ASEAN businessmen are very conservative in their approach to business development. Frequently, what may now be large ASEAN businesses began with a single dynamic individual or family that built their businesses gradually by hard work and reinvestment of profits. Such common business practices as debt financing for expansion or acquisitions which we take for granted, are often regarded with skepticism.

Overcoming Anti-Technology Biases. It is easy for an ASEAN business leader to answer key questions about products; How good is it? What does it cost? How much can I make? However, it is far more difficult to evaluate the economic risks and benefits of technologies. ASEAN businessmen tend to be quite expedient and there is no built-in predisposition to accept the claims of U.S. technology proprietors and, in fact, there are some widespread negative biases impeding technology acquisition. Some of the most commonly cited biases regarding U.S. technology are:

1. That it is too expensive;
2. That it has an inadequate track record;
3. That it is inappropriate for the given application and that U.S. companies are unwilling to adapt their technologies; and
4. That there is poor follow-up regarding technical services and troubleshooting.

The same objections are raised regarding Japanese and European technologies. The basic point is that the technology proprietor is starting from a defensive position and must build credibility with the customer and offer as many ways to make technology acquisition as attractive as possible.

Need for a Permanent Presence. To market technology effectively in the ASEAN region, a permanent presence is needed. Large American corporations such as Pioneer Seeds or AT&T can and do maintain permanent offices in the ASEAN region with sales forces constantly working the region. However, smaller U.S. technology proprietors do not have the resources to maintain such a presence and much (if not most) of the exciting technical innovations in the U.S. come from small to medium-sized businesses. Some of these companies work through regional representatives that handle a portfolio of technology products but such representatives often lack sufficient experience with a given technology to argue its merits persuasively and lack the resources to take the time to properly educate themselves regarding their client's technologies.

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Another factor to keep in mind in formulating the type of regional presence needed is the fact that ASEAN businessmen do not respond well to the "cold call" form of sales. One is much more likely to follow through a contact with a successful sale if the initiative to talk with the technology proprietor comes from the ASEAN business side. Thus, it appears better to create a presence which the ASEAN businesses can approach when they have a technology need. Such a presence would not create a strong deal flow overnight; it would still take a lot of promotion of the entity and credibility building before the entity was widely recognized and used. It might well be advantageous to search for existing organizations with related missions and already widely respected to implement a permanent "technology acquisitions" office.

Incentives. In light of the "up hill battle" the U.S. technology proprietor faces in the ASEAN region, every effort must be made to create incentives for ASEAN parties to treat U.S. technology proprietors preferentially. One of the factors that has helped Japan expand its business interests in the ASEAN region is providing ample support for feasibility studies and very favorable financing terms for Japanese equipment. The United States has already begun instituting similar programs through such agencies as TDP and OPIC. However, the U.S. programs have been more discriminating than their Japanese counterparts and this should continue since there are many Japanese-supported "white elephants" that failed to operate properly or were too sophisticated to be operated by local personnel. These failures have engendered distrust within the ASEAN business community. One practice that is particularly resented is when a piece of equipment is sold at a very low price but replacement parts are sold at a very high price.

The applicability of existing incentive programs to technology sales has to be thought through. A technology has to be put within the context of its application to take form and the investment required to apply the technology can vary enormously. If a capital-intensive project is the means of exploiting the technology, then feasibility study programs where funding is based on the projected capital investment can be invoked to promote the technology application. However, other technologies, such as composing technology, may not require much investment capital at all, and thus, might not qualify for feasibility study funding. Also, such projects might be small scale and could, therefore, fall below the investment threshold of development finance agencies. Since many ASEAN businessmen tend to avoid capital-intensive, large-scale projects, existing incentive programs might not be applicable to a substantial proportion of good opportunities.

Technology Valuation and Joint Venturing. The valuation of technology and mode of payment is perhaps the most sensitive issue related to U.S. technology sales. In the United States, companies are prepared to pay large sums of money up front for the acquisition of technologies since they have the sophistication to calculate the value of the technology over the long term. However, most ASEAN businesses lack such capabilities and cannot, therefore, properly determine a technology's worth. This, combined with the ASEAN businessman's proclivity to pursue investments yielding positive near-term returns, makes it difficult for them to value technology.

Since ASEAN entrepreneurs are not particularly inclined to accept the analysis of the technology proprietor, there is a need for an impartial service having the necessary tools for proper technology valuation. However, such services would cost money which the business executive is again often unwilling to pay, so some form of subsidy would probably be needed to make such a service viable.

Perhaps the most effective means of overcoming the technology-valuation problem is for the technology proprietor to take a joint venture position with the ASEAN business desiring the technology, and exchanging either equity or a share of the profits in the new business for up-front licensing fees. This puts the technology proprietor's remuneration on a success basis where he is only rewarded if the technology application generates profits. Such arrangements also create an identity of interest between the technology proprietor and the purchaser, which strengthens their relationship. It also helps ensure that U.S. technology proprietors provide adequate follow-up services since they now have a personal interest in the success of the business.

However, it will be necessary to properly prepare U.S. business executives about the differences in approach needed when trying to do business in the ASEAN region. U.S. technology proprietors that have developed successful joint ventures in Southeast Asia have generally adhered to the following tenets:

1. Keep it simple. Do not overwhelm your partner with technical jargon;
2. Seek strong indigenous operating partners with "clout" and impeccable financial references;
3. Technology proprietors must share an identity of interest with local partners;

4. Technology proprietors must respect the values and customs of the country; and
5. Technology proprietors must make a long-term commitment to maintaining a presence in the region.

Many U.S. companies will flatly refuse to undertake such approaches as joint venturing and it is usually futile to try and persuade them otherwise unless a particularly attractive opportunity is involved. It is probably more productive for those seeking to enhance U.S.-ASEAN trade to spend their time looking for companies that are willing to accept the above tenets and share the risk through joint venturing.

Proactive Measures. One proactive step that can be taken is to educate the ASEAN businessman on the benefits to be gained by using U.S. technologies. This can be accomplished through seminars and publications, with a combination of the two being ideal. However, such proactive activities are expensive, especially seminars, and the hit rate is low unless the audience is composed of truly interested parties. However, U.S. companies with a genuine interest in marketing their technology overseas should be prepared to provide descriptive literature that clearly defines the applications, cost advantages and supporting services.

One example that might be a useful model is the U.S. energy technology catalog that was prepared by CORECT (Committee on Renewable Energy Commerce and Trade). The vendors catalog provided the information described above for about 50 pre-screened companies and was published with a companion booklet on renewable technology applications and options for particular end-uses considered most attractive to developing country customers. The literature was distributed to USAID offices and embassies and to 1,500 selected developing-country agencies involved with energy development. The total cost for this effort was \$100,000 and, if significant sales are stimulated through this effort, subsequent editions will be paid for by the listed companies.

Technology Adaptation. There is a need to establish mechanisms for U.S. technologies to be adapted to developing country conditions. Such adaptations generally involve the manner in which the technology is implemented rather than adaptation in the technology per se. The approach to projects in the ASEAN region should keep in mind the choices possible between labor-intensive and capital-intensive alternatives. U.S. project developers should put themselves in "ASEAN shoes" when designing how the technology is going to be applied. Also, there are trade-offs in equipment choices between simpler but less efficient and

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more complex (and costly) but more efficient equipment that should be taken into consideration. U.S. engineers seem to have a particularly hard time puzzling out such adaptations and collaborations with local ASEAN engineering firms in technology implementation should be strongly encouraged.

C. OPTIONS FOR IMPROVING TRANSFERS OF COMMERCIAL TECHNOLOGY

The preceding section describing needs and issues associated with promoting U.S. technology sales in the ASEAN region also addressed the means for resolving those needs and issues.

Establishing a Permanent Presence. The three key elements needed for a successful technology promotion program are:

1. A portfolio of pre-screened U.S. technology proprietors with a genuine interest in doing business in the ASEAN region;
2. A permanent and respected entity to which ASEAN businessmen can go to source technology requirements beyond their knowledge or capabilities; and
3. A network of ASEAN-based U.S. technology representatives that can effectively follow through on technology inquiries in a face-to-face mode.

Identification of U.S. Technology Proprietors. One can begin by first focusing on the technology areas considered to be of highest priority:

1. Agribusiness technology, including aquaculture;
2. Energy production and conservation; and
3. Environmental protection technology.

The U.S. clearly has much to offer in these three fields. Once an effective program for promoting U.S. technologies in these fields is established, one can proceed to address subsequent priorities as resources permit.

One can then survey technology vendors in the target areas to identify those with a genuine interest in doing business in the ASEAN region. This process can take great advantage of recent surveys in these fields conducted by such organizations as the U.S.-ASEAN Center for Technology Exchange, RDF (Resources Development Foundation), CORECT, OPIC, TDP, the Biomass Energy Technology Program at AID, the Agri-Energy Roundtable, ASAC

(American Society of Agricultural Consultants) International and many other organizations involved in promoting U.S. technologies in the priority areas. It is unlikely that many worthwhile companies would be overlooked even if only the recent work of the specific organizations listed is reviewed. Once a list of potential U.S. technology proprietors is prepared, a questionnaire can be drawn up to solicit information about the companies, the technologies they offer, and their degree of interest in developing ASEAN markets.

Focal Point for Technology Inquiries from ASEAN Businesses. Selection of an institution to provide a focal point for technology inquiries should be based upon the following criteria:

1. It should be a single institution serving the entire ASEAN region to prevent confusion or competition;
2. It should be readily accessible to ASEAN businessmen.
3. It should be an existing institution that currently serves a similar purpose, is highly respected and is not unduly associated with or dedicated to a single country;
4. It should have a business orientation and be conversant enough in the target technologies that it can make a preliminary determination of the appropriate vendors to contact; and
5. It should be prepared to work with U.S. company and regional sales representatives and act as co-intermediaries with local reps between ASEAN businesses and the U.S. technology vendors.

Network of U.S. Technology Representatives. There already exists the makings of a network in the numerous small American-run businesses throughout the ASEAN region that already represent U.S. product manufacturers in addition to the regional sales offices dedicated to single corporations. However, these businesses are generally unaware of their counterparts in other ASEAN countries and usually lack the sophistication to effectively market technology as opposed to products. Nevertheless, these businesses could form the basis for an ASEAN-side network. If a focused effort were made to identify these businesses, introduce them to each other and brief them on target technologies or how they can learn more about such technologies when they encounter interested parties, then that may be all that is needed to get an ASEAN network established.

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Once the focal institution and network of representatives are in place, educational briefings can then be undertaken. First, the nature of the program will have to be described and promotional literature provided. Second, the target technologies will have to be reviewed, perhaps in a series of seminars (if affordable) or through informational literature on the technologies provided by the U.S. vendors. Vendors will probably also want to provide supplemental promotional literature, but factual information developed by third parties should be the principal written component of the promotions program. Finally, the incentives available to attract the ASEAN businessman into considering and acquiring U.S. technology will have to be presented to both the staff of the "magnet" institution and the network of U.S. technology representatives.

D. RECOMMENDATIONS

This section summarizes the actions needed to carry out an effective U.S. technology promotion program within the ASEAN region. Recommended actions are predicated on the following assumptions:

1. Because financing for the project is limited, the technology promotions component of the project will have to be reactive in nature and confined to establishing an effective mechanism for exploiting expressed ASEAN business interest in the target technologies;
2. The project can take great advantage of recent studies, existing institutions and programs in achieving its aims;
3. The interactions between ASEAN businesses and U.S. technology vendors should be properly measured and well-conceived; and
4. The success of a technology transfer program will be dependent upon creating and/or strengthening incentives pertinent to technology sales.

The following sequence of activities will, of course, have to be integrated with the other elements of the PITO program which includes promoting products and services and general improvement in U.S.-ASEAN trade relations. There are many common action items and only a few that relate exclusively to technology promotion.

1. Review recent surveys and activities by U.S.-based (mostly Washington-based) organizations to develop a candidate listing of U.S. technology pertinent to current priority business-development areas;

2. Screen candidate U.S. technology proprietors; first, by questionnaire and, second, by their willingness to contribute corporate resources (manpower, travel support, project support) to participate in an ASEAN program;
3. Charge an appropriate organization or committee of organizations with the responsibility of reviewing and selecting a "magnet" institution that will be a focal point for ASEAN business inquiries regarding technology needs;
4. Determine what support the "magnet" institution needs to effectively direct ASEAN interest to U.S. technology proprietors, presumably through existing regional U.S. technology representatives;
5. Identify existing regional U.S. technology representatives through communication with the short-listed technology proprietors and through contacts with organizations and individuals within the ASEAN regional able to identify such representatives (i.e., AID missions, American consulting and engineering organizations operating in the region, etc.);
6. Determine those U.S. technology representatives interested in cooperating with the proposed program within the guidelines defined;
7. Inform the representatives network, through either seminars, publications or both, of the nature of the program, the technologies targeted for promotion and the incentives available to encourage business interest;
8. Undertake whatever proactive activities such as conferences and trade missions that can be afforded after the needs of the core program have been adequately fulfilled and coordinate proactive activities with related efforts (i.e., OPIC and CORECT trade missions) already in progress; and
9. Develop mechanisms for evaluating the effectiveness of the technology promotions effort (ie. inquiry records keeping and follow-up surveys) and strategies for the system to become self-sustaining.

The ultimate determinant of a successful technology promotion effort will be the generation of sufficient technology sales to persuade the U.S. private sector, itself, to support at least a significant part of the technology promotions system in the future.

A.I.D./ASEAN GRANTEES

The A.I.D./ASEAN development strategy has been to support regional entities that are non-exclusive and consensus oriented, relate to existing institutions, and are developmental in broad terms. This strategy has sought the same characteristics in U.S. organizations which have worked in the program. The Project design team identified four regional institutions: AUSB/ASEAN, AUSB/CTE, Technonet Asia and the East-West Center to carry our Project components.

1. ASEAN-U.S. Business Council (AUSBC)

The ASEAN-U.S. Business Council (AUSBC) was established in 1979, at the request of the respective governments to enable ASEAN and U.S. business leaders to conduct an effective and continuing dialogue on bilateral economic relations, to provide a mechanism for identifying policies which would strengthen commercial ties and to stimulate two-way trade and investment. The Council is co-sponsored by the Chamber of Commerce of the U.S. and the ASEAN Chambers of Commerce and Industry (ASEAN CCI). From its inception, the Council has enjoyed the active support and encouragement of the respective governments.

Prominent business leaders of each nation comprise the two national sections of the AUSBC, William E. Tucker, former Chairman and Chief Executive Officer of Caltex Petroleum Corporation, is Chairman of the Council's U.S. section, which consists of 40 senior executives of U.S. firms active in the region. The U.S. section also includes small and mid-sized firms. The Chairman of the ASEAN section is Anand Panyarachun, Vice Chairman of SAHA-Union Corp., Ltd. in Bangkok, Thailand. Members of the ASEAN section include some of the leading businessmen in Southeast Asia, with direct representation from national and communal Chambers of Commerce and Industry and other business associations. The entire Council meets every other year in plenary sessions, usually in the ASEAN region, will annual joint meetings in the U.S.

Recent AUSBC initiatives include launching the U.S.-ASEAN Center for Technology Exchange, a non-profit corporation founded to promote ASEAN access to U.S. technology.

On the policy front, AUSBC consults regularly with senior officials of the Administration and Congress on a full range of ASEAN-U.S. economic issues. The Council also plays an active role in trade policy discussions relating to ASEAN-U.S. business and regularly addresses the ASEAN-U.S. Dialogue, the annual inter-governmental consultations between the U.S. and the ASEAN nations.

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The council frequently hosts meetings with senior ASEAN political leaders. For example, in the past two years, Council members have met with the heads of state of Thailand, Malaysia, Singapore and the Philippines to discuss trade, investment, commercial policy and development strategy. In addition, trade, investment and economic planning ministers from the ASEAN countries are frequent guests of the Council.

In an effort to reduce policy related impediments to wider ASEAN-U.S. business, the Council recently completed an in-depth study of the economic relationship. The study, Overcoming Barriers to Business Cooperation, pinpointed the barriers on both sides and recommended specific ways to lower them.

The AUSBC, in many ways, represents an exceptional vehicle for promoting trade, investment and policy dialogue between the public and private sectors of ASEAN and the U.S. The benefits of its activities include:

- opportunities to develop new business and government contacts relevant to corporate sales and investment objectives within ASEAN;
- increased access to senior policy makers on both sides;
- a mechanism to improve the policy and regulatory climate for U.S. business both in ASEAN and the U.S.;
- access to economic, marketing and political information that bears directly on commercial strategy;
- an opportunity to work with and learn from other firms deeply involved in ASEAN-U.S. commerce; and
- a high profile in ASEAN as an organization seriously committed to promoting closer ties.

2. The AUSBC/Center for Technology Exchange

The ASEAN-U.S. Center for Technology Exchange is a non-profit organization whose mission is to expand and promote trade and investment between the U.S. and the member countries of the Association of Southeast Asian Nations (ASEAN). The Center's programs are designed to increase access by Southeast Asian businessmen to U.S. sources of technology, technical assistance and joint venture investment. The Center also seeks to expose small and medium sized businesses, as well as larger U.S. corporations, to the economic opportunities the region offers.

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As a result, the Center conducts technical seminars in the various ASEAN countries, organizes technology trade and investment missions to the U.S. and provides information to companies on specific sources of technology in the U.S. A.I.D. provided an initial grant of \$1 million in 1984, and two smaller interim grants in 1988-89, to support CTE. Since CTE's inception, A.I.D. funds have provided about one-third of CTE's total funding, with the remainder coming from private cash and in-kind contributions.

To date, the Center has conducted over 50 seminars, workshops or specialized missions covering an array of topics such as: insurance, machine tooling, food processing, plastics, technology and productivity, agriculture investment, packaging, doing business with the U.S., financing, port management, joint-venture, licensing, capital markets and process control. The Center has also conducted several studies including the recently completed Opportunities for U.S.-ASEAN Trade and Investment (an industrial sector analysis) and Energy Sector Analysis (a detailed assessment of opportunities in a specific sector). The Center currently has a grant from the A.I.D./ANE Office of Private Sector Development to continue its ASEAN trade and investment activities through the calendar year when PITO initiatives begin. The grant has three principal elements:

- U.S. seminars and missions to the ASEAN region to develop trade and investment in private power development and energy conservation;
- analysis of the ASEAN industrial joint-venture (AIJV) situation; and
- assistance to American and ASEAN companies seeking new business opportunities.

Most private and public sector leaders interviewed by the design team volunteered that CTE did not effectively promote U.S. technology nor successfully transfer technology to the ASEAN region. Part of the problem was that CTE attempted to provide information on too broad a range of industries. CTE has recently attempted to narrow its focus and bring a greater market-driven orientation to its activities.

However, in the PITO Project, CTE will play a more restricted role than in past efforts, capitalizing on its relationship with the U.S. Chamber of Commerce (through the AUSBC/U.S.) and its broad contacts with U.S. business and individuals.

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3. Technonet Asia

Technonet Asia, and ASEAN based NGO, has 17 years experience conducting seminars and workshops and technology transfer/commercialization. Technonet has special and strong links to ASEAN SMBs, technology and standards and quality assurance groups. Technonet was started by the IDRC and has also received funding and technical support from JICA, EEC, UNIDO, GTZ, CIDA, IBRD, ILO and ATI.

Technonet works with a group of Participating Organizations (POs), governmental and private groups serving SMB needs, providing an outreach network through which SMBs gain access to regional and international technical resources. The POs consist of industrial and small business promotion groups, industrial training and services groups, an economic analysis group, technology commercialization and services groups and standards, quality assurance and industrial research groups.

With its POs, Technonet implements action-oriented programs through an appropriate mix of research consultancy, training, institution building and technology commercialization and project management. Technonet's approach is both proactive and reactive and has four thrusts: technical information, industrial extension, entrepreneurship development and technology sharing and commercializations.

The design team found the Technonet program an effectively designed system to provide expert consultancies and information in response to specifically expressed SMB needs. The team also found Technonet's person-to-person approach to technology transfer particularly sound. Experts in specific industries or technologies are brought into individual firms or work with small groups of entrepreneurs and technical staff. Consultancies are not limited to technical aspects, but also address more general topics such as subcontracting, product selection, assessment of appropriate technology and commercialization. Thus the consultancy not only deals with explicitly technical problems and solutions, but also addresses the SMB's need for systems and skills to apply and adapt technological resources.

Technonet played a major role in A.I.D./ASEAN's successful Small and Medium Business Improvement Project (498-0277). In conducting its responsibilities, Technonet was found to be: very capable of providing services to its SMB clients; able to effectively use services of U.S. and ASEAN private experts and public agencies as technical consultants; successful at obtaining fees from SMB beneficiaries for their services; and financially sound and capable of satisfying A.I.D.'s financial accounting requirements.

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4. The East-West Center's Resource Systems Institute

Given the sensitivities of ASEAN leaders towards ASEAN-U.S. trade and investment policy issues, the success of the Policy Analysis/Problem Resolution Component can only be achieved through individuals and institutions in which both the U.S. and ASEAN have a high degree of confidence. The Resource Systems Institute of the East-West Center is viewed by ASEAN leaders as a U.S. research organization uniquely qualified to bridge ASEAN and U.S. sensitivities over trade and investment issues.

The Institute gained the confidence of ASEAN leaders during previous work performed for the Asian Development Bank. Subsequently, the Institute has maintained their confidence through private research for the Group of 14 (G-14), an informal association of major ASEAN private sector leaders and ASEAN. Two years ago, the Institute completed a thorough analysis of intra-ASEAN trade patterns. The recommendations of this study directly influenced trade and investment liberalization policies adopted by the ASEAN Heads of State during their Third Summit in Manila, December 1987.

Most recently, the Institute, working with The Institute of Southeast Asian Studies in Singapore and several ASEAN researchers, successfully completed the ASEAN-U.S. Initiatives Study (AUI). The AUI assessed the current ASEAN-U.S. economic situation and provided recommendations for future policy action to enhance bilateral economic relations. Several of AUI's policy prescriptions will become specific items for resolution during the life of the PITO Project.

The design team concluded that the Institute has both the predominant technical capability and unique professional relationship (credibility) within the ASEAN countries necessary to create a collaborative work environment, assist and further develop ASEAN research groups and ensure the success of the Component Three activities.

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ASEAN-PITO FIRST ANNUAL WORK PLAN

Annual work plans will be prepared by the Project Secretariat and submitted for review and approval by the Steering Committee as discussed in Section VI of the Project Paper. Figure K-1 on the following page describes the major activities and proposed schedule for Year One of the Project. This description is preliminary subject to preparation of a more complete implementation work plan by the Project Secretariat based upon schedule and discussions with the PITO grantees. An immediate objective of the initial activities is to publicize the availability of assistance to ASEAN governments, entrepreneurs, and industry groups through PITO.

While only preliminary, it is possible to identify activities and promotional efforts that will be given priority in scheduling PITO efforts. Prospective activities for Year One of the Project include the following:

ASEAN-based Promotion Activities

It is expected that the ASEAN section of the AUSBC will have sponsored at one-two promotional activities in each ASEAN member country by the end of the first Project. These activities will be organized by the Chamber of Commerce and Industry in each country. The initial seminars will be directed at agribusinesses including aquaculture industries. The second seminar will be targeted at businesses with interests in energy conservation technologies or packaging depending upon the particular country.

Technology-based Promotion Activities

In the first year, at least one conference will be organized by Technonet for ASEAN-wide participation addressing quality assurance. Presenters will include experts from the U.S., ASEAN and the newly industrialized countries. The conference may also be used to establish an annual award program for excellence in quality performance. The award program will encourage competition by selecting a firm for an ASEAN-wide award from the firms selected at the individual country level.

Other technology subjects that are candidates for conferences/symposiums conducted in the first year include:

- machinery and machine tools;
- standards and information sources; and
- feedstock refinement processes.

PITO Year One Activities

Months From Initiation of Project Agreement

ACTIVITIES	1	2	3	4	5	6	7	8	9	10	11	12	
<u>Promotion Activities</u>													
Negotiate/Award AUSBC-ASEAN grants	XXXXXXXXXX												
Recruit/Select T&I Representatives		XXXXXXXXXX											
Design/Prepare PITO Brochure			XXXXXXXXXX										
Initiate Referral Services				XX									
Conduct Promotional Seminars							XXXXXX					XXX	
Negotiate/Award AUSBC-U.S. grant	XXXXXXXXXX												
Initiate Referral Services		XXXXXXXXXXXXXXXXXX											
Conduct Promotional Seminars								XXXXXX					
Negotiate/Award Technonet grant		XXXXXXXXXX											
Design/Prepare Brochure			XX										
Initiate Technical Services												XXXXX	
Conduct Technology Seminar													
<u>Policy Analysis and Resolution</u>													
Negot./Award E-W Center grant			XXXXXXXXXX										
Dev./Approve Initial Policy Agenda			XXXXXXXXXX										
Negot./Award ASEAN Policy Center Study Grants						XXXXX							
Submit Policy Study to Steering Committee											X		
Publish Policy Study												XXXX	
<u>Growth Fund Assistance</u>													
Establish Assistance Schedule	XXXXXXXXXX												
Initiative T/A Assignments		XXXX		XXXXX		XXXX		XXXX					

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LIST OF INTERVIEWS

Brunei Darussalam

- Ym. Datin Paduka Hajjah Jusnani binti Haji Lawie, Economic Planning Unit, Ministry of Finance
- Ym. Awg Mohd Rosli bin Haji Sabtu, Economic Planning Unit, Ministry of Finance
- Ym. Hj Abu Bakar bin Haji Tahir, Economic Development Board, Ministry of Finance
- Ym. Pg Yaakub bin Pg Haji Othman, Director of Industry, Ministry of Industry and Primary Resources
- Ym. Pg Osman bin Pg Haji Abbas, Administrative Officer, Ministry of Industry and Primary Resources
- Ym. Awg. Muhammad bin Haji Suhaili, Executive Secretary, National Chamber of Commerce and Industry; Malay Chamber of Commerce and Industry
- Mr. James Wojtasiewicz, First Secretary, Embassy of the United States

Indonesia

- Mr. John S. Karamoy, Senior Vice President, Huffco Indonesia
- Mr. Ir. A. Sarbini, Asosiasi Industri Plastik Indonesia (Apindo)
- Mr. Bambang Noroyono, Deputy Director for ASEAN Affairs, Department of Trade
- Mr. Gofar Bain, Director, Directorate General for Foreign Trade, Directorate for Foreign Trade Relations, Department of Trade
- Mr. Stephen Parker, Economist, Economic Policy Support Office, U.S. Agency for International Development
- Mr. Gordon West, Director, Employment and Enterprise Division, U.S. Agency for International Development
- Mr. Peter Gajewski, Chief, Economic Policy Support Office, U.S. Agency for International Development
- Dr. David S. McCauley, Natural Resources Policy Advisor, U.S. Agency for International Development

- Mr. Damayanti Pudjirahayu Siahaan, Deputy Director for External Relations, ASEAN and Asia Pacific Affairs, Indonesian Chamber of Commerce and Industry (Kadin Indonesia)
- Mr. Z. Achmad, Bureau of International Relations, Ministry of Industry
- Mr. Budi Hartantyo, Special Assistant to the Chairman, Investment Coordinating Board (Badan Koordinasi Penanaman Modal-BKPM)
- Mr. Sugihono Kadarisman, Head, Bureau of Investment Promotion, Investment Coordinating Board (BKPM)
- Mr. Melville Brown, Advisor, Ministry of Finance and Capital Markets Authority
- Mr. Philip Brewer, Advisor, Capital Markets, U.S. Agency for International Development
- Mr. Husni Thamrin Pane, Director General, ASEAN Secretariat (National)
- Mr. Djisman S. Simandjuntak, Director, Center for Strategic and International Studies (CSIS)
- Dr. Ir. Mohammad Sadli, Chairman, Research and Analysis Council, Indonesian Chamber of Commerce and Industry (KADIN)
- Mr. Paul Walters, Commercial Counselor, Embassy of the United States

Malaysia

- Dato' Mohd Ramli Kushairi, Secretary-General, National Chamber of Commerce and Industry of Malaysia (NCCI); Deputy Executive Chairman, Kesang Corporation Bhd.
- Mr. Lim Say Chong, Council Member, Federation of Malaysian Manufacturers
- Mr. Lee Cheng Suan, Deputy Director, Federation of Malaysian Manufacturers
- Ms. Chew Swee Leng, Assistant Director, Federation of Malaysian Manufacturers
- Mr. Raman Letchumanan, Principal Assistant Secretary, International Division, Ministry of Science, Technology and Environment (MOSTE)
- Mr. Lam Teng Chee, Director of Standards, Standards and Industrial Research Institute of Malaysia (SIRIM)

Mr. Hong, Director, Technologi Park Malaysia

Mr. Thiru, Ministry of Science, Technology and Environment
(MOSTE)

Ms. Aminah Ali, Department of Environment, Ministry of Science,
Technology and Environment (MOSTE)

Dato' Abdullah, Director, Economic Planning Unit, Office of
the Prime Minister

Mr. Fakhurrazi, Trade and Investment, Financial Markets and
and Services Division, Economic Planning Unit

Ms. Patricia, Industrial Master Planning, Economic Planning Unit

Ms. Harvinder Kaur, Technology, Research and Development and
Tourism Division, Economic Planning Unit

Mr. Y.C. Ong, Economic Planning Unit

Mr. Robert M. Moll, General Manager, Borden Foods (Malaysia)
Sdn. Bhd.

Ms. Ann Venus, Korn/Ferry International

Mr. Julio A. Andrews, Representative for Malaysia, Singapore and
Thailand, The Asia Foundation

Mr. Kwan, Bank Negara

Mrs. Harriet Subramanium, Treasury

Mr. Othman, Treasury

Mr. Samsudin Marsop, Senior Deputy Director (Policy),
International Trade Division, Ministry of Trade and Industry

Mr. Sabri, Ministry of Trade and Industry

Mr. Abdul Ghafar, Ministry of Trade and Industry

Mr. Abu Bakar, Ministry of Trade and Industry

Mr. Abdul Rahman, Ministry of Trade and Industry

Mr. J. Jegathesan, Director, Industrial Promotion Division,
Malaysian Industrial Development Agency (MIDA)

Mr. Lim Hock Guan, Deputy Director, Malaysian Industrial
Development Agency (MIDA)

Mr. Tan, Planning Division, Malaysian Industrial Development Agency (MIDA)

Ms. Geraldine Balachandran, Planning Division, Malaysian Industrial Development Agency (MIDA)

Mr. Yooga, Deputy Director-General for ASEAN Affairs, Ministry of Foreign Affairs

Mr. Mahindir Singh, Ministry of Foreign Affairs

Mr. Clifford Herbert, Ministry of Finance

Mr. Paul Blakeburn, Counselor for Economic Affairs, Embassy of the United States

Ms. Dorothy Lutter, Assistant Commercial Attache, Embassy of the United States

Mr. Jeffrey Bellor, Embassy of the United States

The Philippines

Mr. Michael Hauben, Mission Director, USAID/Philippines

Mr. Noel C.A. Ruiz, ASEAN Regional Office, USAID

Mr. Bernardo M. Villegas, Senior Vice President, Center for Research and Communication (CRC)

Mr. Victor Lim, President, Philippines Plastics; Past President, Philippine Chamber of Commerce and Industry (PCCI)

Mr. Juanito P. Jarasa, Director-General, ASEAN-Philippines Relations, Department of Foreign Affairs

Ms. Maria Cleofo R. Natividad, Foreign Service Officer, Department of Foreign Affairs

Mr. Diosdado Macapagal, Jr., Department of Finance

Senator John Osmena, Philippine Senate

Mr. Theodore J. Villinski, Commercial Counselor, Embassy of the United States

Mr. Robert M. Sears, President, American Chamber of Commerce; President, Merrill Lynch Philippines Inc.

Rep. Oscar Orbos, Economic Affairs Committee, Philippines House of Representatives

Singapore

- Mr. David Teo, Vice President, Transtech Venture Capital Management Ptc. Ltd.
- Mr. Tan Loong-Hoe, Coordinator and Senior Fellow, ASEAN Economic Research Unit (AERU), Institute of Southeast Asian Studies (ISEAS)
- Ms. Joyce Rasmussen, Executive Director, American Business Council
- Mr. Ian C. Buchanan, Deputy Governor, ASEAN Delegate, and International Relations Director, American Business Council; Regional Director, SRI International
- Mr. Richard Martin, Managing Director, Pacific Biomedical Pte. Ltd.
- Mr. Robert M. Tomlin, Managing Director, Singapore International Merchant Bankers Limited (SIMBL)
- Mr. Lee Ying Chuen, Deputy Chief, Executive Office, Singapore Trade Development Board (TDB)
- Ms. Ng Kim Neo, Senior Manager, Singapore Trade Development Board (TDB)
- Mr. Beaumont A. Lower, Commercial Counselor, Embassy of the United States
- Mr. Md Shahabuddin Faruque, Industrial Development Officer, Technonet-Asia
- Mr. Mahinda Thenabadin, Finance and Administrative Officer, Technonet-Asia
- Mr. Chiang Shao Soong, Divisional Manager, Corporate Planning and Services, Singapore Institute of Standards and Industrial Research (SISIR)
- Mr. Seow Hong Pheow, Senior Consultant, Technology Transfer Department, Singapore Institute of Standards and Industrial Research (SISIR)
- Mr. Foo Meng Teng, Director, Small and Medium Enterprise Division, Economic Development Board of Singapore (EDB)
- Mr. Ow Chin Cheow, Enterprise Development (Manufacturing), Economic Development Board of Singapore (EDB)

- Mr. Thomas Pang Thieng Hwi, Senior Development Officer, Economic Development Board of Singapore (EDB)
- Mr. Ong Lay Chiam, Council Member, Singapore Chinese Chamber of Commerce and Industry; General Manager, Tat Lee Bank Limited

Thailand

- Dr. Narongchai Akrasanee, Executive Vice President, Thailand Development Research Institute Foundation (TDRI)
- Mr. Pakorn Thavisin, President, Thai Bankers Association; President, The Thai Danu Bank, Limited
- Ms. Nopporn Ruangskul, Senior Vice President, The Thai Danu Bank, Limited
- Mr. Pramong Sutivong, Council Member, ASEAN-U.S. Business Council; Vice President, Siam Cement
- Mr. Chaleo Souvannakitti, Managing Director, Business Venture Promotion Company, Ltd.
- Ms. Tanya Sirivedhin, Chief, Foreign Operations Division, Bank of Thailand
- Dr. J. Virachai Techavichit, Council Member, ASEAN-U.S. Business Council; President, Ventures International Co. Ltd.
- Mr. Thirachai Phuvanat-naranubala, Division Chief, Bank Supervision, Bank of Thailand
- Dr. Likit Hongladarom, Deputy Government Spokesman, Office of the Prime Minister
- Dr. Pongsak Payakavichien, Editor, Matichon Newspaper
- Mr. Chira Panupong, Secretary-General, Thailand Board of Investment (BOI)
- Ms. Chutaporn Lambasara, International Division, Thailand Board of Investment (BOI)
- Mr. Chakramon Phasukavanich, Director, Government and Private Cooperation Division, National Economic and Social Development Board (NESDB)
- Mr. Korn Tapparangse, Minister, Prime Minister's Office; Chairman Thailand Board of Investment
- Mr. Kraissak Choonhavan, Adviser to the Prime Minister

- Mr. Prayoon Talerngsri, Executive Director, Board of Trade of Thailand.
- Mr. Lawrence Ervin, AID Representative to ASEAN, U.S. Agency for International Development
- Mr. Robert Dakan, Office of the ASEAN Representative, U.S. Agency for International Development
- Mr. Lawrence Brown, Private Sector Officer, USAID/Thailand

United States

- Mr. Roger Severance, Deputy Assistant Secretary, East Asia and the Pacific, U.S. Department of Commerce
- Mr. George Paine, International Trade Specialist, U.S. Department of Commerce
- Mr. Richard L. Johnston, Jr., Deputy Assistant Secretary, International Economic Policy, U.S. Department of Commerce .
- Ms. Barbara R. Bradford, U.S. Trade and Development Program (TDP)
- Mr. Frederick C. McEldowney, Deputy Director, Office of Economic Policy, Bureau of East Asian and Pacific Affairs, U.S. Department of State
- Ms. Susan M. Blackman, Deputy Director, Office of Pacific Basin, International Trade Administration, U.S. Department of Commerce
- Mr. Peter H. Collins, Director, Southeast Asian Affairs, Office of the United States Trade Representative (USTR)
- Mr. James R. Meenan, Project Development Officer, Bureau for Asia and the Near East, U.S. Agency for International Development (USAID)
- Mr. Graham Williams, Special Projects Officer, Finance Division, Overseas Private Investment Corporation (OPIC)
- Mr. Mark Van Fleet, Executive Director, ASEAN-U.S. Business Council; Director, Asia-Pacific Affairs, International Division, U.S. Chamber of Commerce
- Mr. Robert E. Driscoll, President, U.S.-ASEAN Center for Technology Exchange (CTE)
- Mr. John D. Ferrera, Program Director, U.S.-ASEAN Center for Technology Exchange (CTE)

Mr. Micheal F. Caron, Information Technology Group, Synetics

Mr. G. Stephen Crane, International Business Consultant

Dr. Seiji Naya, Vice President for Strategic Planning, Director
of the Resource Systems Institute, East-West Center

Dr. Shelley M. Mark, Professor of Economics, University of Hawaii

Dr. Fereidun Fesharaki, Leader of Energy Program, Resource
Systems Institute, East-West Center

Mr. Roger Ernst, Consultant on Development

Dr. Michael G. Plummer, Economist, Resource Systems Institute,
East-West Center

Mr. Michael L. Manson, Assistant Director, Resource Systems
Institute, East-West Center

Dr. Bruce M. Koppel, Research Associate, Resource Systems
Institute, East-West Center

Dr. Allen L. Clark, Program Director, Minerals Policy Program,
East-West Center

Mr. Tony Haight, Vice President, Advent Group

Ms. Pearl Imada, Research Associate, Resource System Institute,
East-West Center

Mr. David Hagan, Private Sector Office, Bureau for Asia and the
Near East, U.S. Agency for International Development

Mr. John Tennant, Program Office, Bureau for Asia and the Near
East, U.S. Agency for International Development

Mr. Karl Schwartz, Bureau for Asia and the Near East, U.S. Agency
for International Development

Mr. Robert Archer, Bureau for Asia and the Near East, U.S. Agency.
for International Development

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